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September 2022

# PENSIONS **Age**

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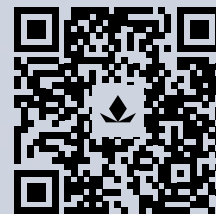
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## Editorial Comment

2nd Floor, 5 Maidstone Buildings Mews, London. SE1 1GN

**I**t's time to forget about pension saving. Or at least, it's time right now to forget about convincing people to increase their pension saving.

I'd been heartened in recent years to find my friends, now in their mid (ok, late) 30s, no longer find my journalism subject of choice dull dinner party chat but now one in which they instigated the conversation, desperately wanting clarification and reassurance that they were doing the right thing for their retirement savings.

(We are fun at parties, honest.)

But lately the discussions have taken a bleaker turn. Talk now is about ways in which to save money on essentials, reduce energy bills and how to keep warm in winter without putting on the heating. No one wants to hear about how they need to do more to increase the funds of their future self; they are far more worried about their current self financially surviving.

These past few weeks have made me lament all the missed opportunities to increase minimum contributions during auto-enrolment (AE)'s decade of existence to a level that gives people a fighting chance of having adequate pension savings at retirement.

We can't even say it's with the benefit of hindsight we see these past chances where an increase would have been more palatable to member and employer alike. (Especially as it is a disgrace that minimum employer contributions still do not equal minimum employee contributions). We in the industry had constantly called for the gradual rise on contributions, however it was 'never the right time'.

And now, unless the nation's finances take an abrupt turn, it'll be a good few years before the government will be brave enough to suggest increasing pension contributions – leaving another generation with inadequate retirement incomes, despite saving into an AE scheme.

Currently, people are likely to only look to their

pensions in order to access more money, be it through accessing their pension pot earlier than planned or opting out of saving into one at all.

Therefore, our industry's focus needs to be helping people preserve their pension savings and maintaining their current contributions if possible. This will require a 'softly, softly' approach to communications, lest we look like insensitive money grabbers during this time of financial crisis.

And now, more than ever, the pensions industry has a vital role to play in protecting people from

scams. Thankfully, last month The Pensions Regulator launched a new scam-fighting strategy, which includes education for both industry and savers alike, in light of concerns that the cost-of-living crisis may leave savers more vulnerable to scammers.

An increased risk of scams coupled with money needing to be stretched further means there are frightening times ahead for many. But nothing lasts forever; things will improve, hopefully (if not realistically) sooner rather than later. And once people feel they can look ahead without fear, they'll turn to us again to help them improve their financial futures.

But they'll remember how we treated them during their time of need. Did we chastise them with dire warnings of the implications of stopping or reducing their pension contributions or were we supportive and understanding of their situation?

If it's the former, we risk people forgetting pension saving altogether.

**“These past few weeks have made me lament all the missed opportunities to increase minimum contributions during auto-enrolment's decade of existence”**



*Laura Blows*

▶ Laura Blows, Editor

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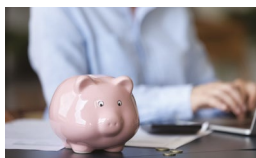
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## Tidal wave

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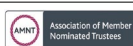
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## Dateline - July/August 2022

### ➤ Rounding up the major pensions-related news from the past month



➤ **6 July** Pensions Minister, **Guy Opperman**, said that he is still on track to implement reforms outlined in the 2017 *Auto-enrolment Review* by the mid-2020s and that he has a three-clause bill “sat” in his office. Speaking at a session in the Work and Pensions

Committee (WPC), Opperman stated that while he was on track to implement the reforms by the mid-2020s, the impact of Covid and wider financial crisis have meant he has not been able to take them forward as soon as he would have liked.

➤ **8 July** **Guy Opperman** was reinstated as Pensions Minister, having resigned from the post on 7 July. Opperman announced his return as a Parliamentary Under Secretary of State at the Department of Work and Pensions (DWP) on Twitter, stating that he had “agreed to help DWP navigate the next few weeks, while we decide the appointment of a new Prime Minister”. It was later confirmed that his specific role at the DWP would be Pensions Minister, picking up from where he had left off. Opperman was one of several ministers to resign in early July, following in the footsteps of over 50 other ministers in Prime Minister, Boris Johnson’s, government who felt that Johnson’s position as Prime Minister and leader of the Conservative Party was untenable. Opperman became the longest-serving Pensions Minister on 11 June 2022, having surpassed the 1,822 days Steve Webb was in the job.

➤ **14 July** The **Online Safety Bill’s** journey through parliament was put on hold until a new Prime Minister is put in place in the autumn. The bill, which was due to be discussed in parliament, seeks to outline how online platforms deal with harmful contact and to better protect people from online fraud. Following months of pressure from the pensions industry, paid-for fraudulent advertising was brought into scope of the bill in early March.



➤ **14 July** The **government** responded to its consultation on the draft regulations for pensions dashboards,

revealing that the deadlines for the first two staging cohorts have been deferred by two months. Master trusts with 20,000 or more relevant members have had their staging deadline changed from 30 June 2023 to 31 August 2023.

➤ **21 July** The **government** published draft legislation confirming plans to introduce a top-up system for low earners in net-pay arrangements, with payments expected to be made from 2025. As part of the policy, HMRC will be required to make top-up payments directly to eligible individuals and to determine eligibility based on whether individuals have contributed to a net-pay pension scheme and if their total taxable income is below the personal allowance.

➤ **26 July** The DWP launched a consultation on the draft Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2023. The consultation is also seeking views on plans to amend the Occupational Pension Schemes (Scheme Funding) Regulations 2005, and a new requirement for defined benefit (DB) pension schemes to appoint a chair where they do not already have one. Under the draft regulations, DB schemes will be required to have long-term plans set out in a funding and investment strategy, which they will also be required to submit to The Pensions Regulator (TPR). The measures aim to help contribute towards “clearer funding standards” and to support trustees and employers in planning their scheme funding over the long term by requiring trustees to report progress against scheme targets. Commenting in the foreword, Opperman stressed that it is not the DWP’s intention to push schemes to undertake “inappropriate de-risking of their investment approaches”, but rather to have “better, and clearer, funding standards”.



For more information on these stories, and daily breaking news from the pensions industry, visit [pensionsage.com](https://www.pensionsage.com)

➤ **27 July** The DWP issued a consultation on two technical changes to the Fraud Compensation Fund (FCF) and the PPF regulations. This included the introduction of an additional prescribed liability that the board of the PPF can make an interim payment for in order to cover scheme fees and costs while FCF claims are progressed.

➤ **1 August** Applications for **collective defined contribution** (CDC) pension schemes officially opened in what was highlighted as an “injection of innovation” for the industry, with plans to consult on new forms of CDC pensions confirmed for later this year. Legislation for single or connected employer CDC schemes was introduced as part of the Pension Schemes Act 2021, with TPR also laying its code of practice for CDC schemes before parliament earlier this year. According to the DWP, some parties have already expressed an interest in expanding CDC models, including multi-employer CDC schemes and the potential for CDC schemes that offer “decumulation only”.



➤ **3 August** TPR launched a new scam-fighting strategy in light of concerns that the cost-of-living crisis may leave savers more vulnerable to scammers. Under the plan, TPR aims to educate the industry and savers on the

threat of scams, prevent practices that can harm savers' retirement outcomes, and fight fraud through the prevention, disruption and punishment of criminals.

➤ **9 August** The aggregate surplus of DB pension schemes in the UK fell for the first time in six months during July, the **PPF 7800 Index** revealed. According to the index, the surplus fell from £267.9bn at the end of June to £254.3bn at the end of July, while the funding ratio decreased from 120.1 per cent to 118.2 per cent over the same period.

➤ **10 August** TPR executive director of regulatory policy, analysis and advice, David Fairs, detailed what the regulator expects pension trustees and sponsoring employers to consider when refinancing in the current economic climate. Fairs noted that new

macroeconomic challenges are presenting themselves as the business world looks to bounce back from the Covid-19 pandemic, which could make refinancing more challenging for sponsoring employers.

➤ **12 August** Nearly half (44 per cent) of scam guidance sessions due to an ‘amber flag’ warning being raised during a pension transfer were conducted without knowledge of the reason for the flag being raised, **Quilter** found. According to a freedom of information (FOI) response the firm received from the Money and Pensions Service (Maps), across the 2,875 sessions conducted in April-June 2022, Maps did not know the reason for the session in 1,266 of them. New transfer rules were introduced in November 2021, whereby trustees would have to raise amber or red flag warnings if they felt a pension transfer could be at risk of scam activity, with a guidance session mandatory before a transfer can be authorised when an amber flag is raised. The FOI data also showed that overseas investments remained a common cause of an amber flag being raised, which Quilter said was resulting in many potentially low-risk pension transfers being put on hold for this reason. Maps warned that the high proportion of ‘unknown’ reasons for guidance sessions was likely to create a significant skew in the numbers, so the real figure could be higher. The FOI response revealed that 3,731 scam guidance sessions have taken place since the new transfer rules were introduced.

➤ **17 August** Pension trustees had “grave concerns” for their members as they approach retirement, with 92 per cent of trustees fearing they will be targeted by scammers, according to research by **Wealth at Work** and the **Pensions Management Institute**. DB pension transfers were found to be a particular area of concern.



➤ **25 August** Pension scheme trustees have been encouraged to engage with insurers early amid concerns over a potential capacity crunch, with 2022 set to be the second largest year ever for the UK pension risk transfer market, according to **Legal & General**. The group estimated that the volume of the UK pension risk transfer market is expected to reach around £12bn in the first half of 2022.

## News focus

# Government launches consultation on DB funding regulations

**✦ The DWP has published a consultation on DB funding regulations that will help inform TPR's DB funding code, which is expected to be operational by September 2023. The consultation seeks views on long-term funding and investment requirements**



**T**he Department for Work and Pensions (DWP) has launched a consultation on the draft Occupational Pension Schemes (Funding and Investment Strategy and

Amendment) Regulations 2023.

The consultation is also seeking views on plans to amend the Occupational Pension Schemes (Scheme Funding) Regulations 2005, and a new requirement

for defined benefit (DB) pension schemes to appoint a chair where they do not already have one.

Under the draft regulations, DB schemes will be required to have long-term plans set out in a funding and investment strategy, which they will also be required to submit to The Pensions Regulator (TPR).

The measures aim to help contribute towards “clearer funding standards” and to support trustees and employers in planning their scheme funding over the long term, by requiring trustees to report progress against scheme targets.

Indeed, commenting in the foreword, Pensions Minister, Guy Opperman, stressed that it is not the DWP's intention to push schemes to undertake “inappropriate de-risking of their investment approaches”, but rather to have “better, and clearer, funding standards”.

Opperman stated: “Most DB schemes are well managed. However, despite the safeguards in place, best practice is not universal.

“Our intention is to have better – and clearer – funding standards, whilst retaining the strengths of a flexible, scheme-specific approach. It is neither ‘one size fits all’, nor about micro-managing schemes. Every scheme will be treated on its merits.

“Millions of people rely on DB schemes. Our new measures will help ensure they are protected for the long term.”

In addition to this, TPR is expected to be able to intervene more efficiently to protect members under the draft regulations, as the regulator will be able to step in and engage where schemes appear to be falling short of the legal requirements.

The launch of the consultation has also helped to assuage fears that the regulator's revised timeline for the DB funding code to be operational by September 2023 could be 'under pressure', with a consultation on TPR's updated code now expected in autumn.

Commenting on the draft regulations, TPR chief executive, Charles Counsell, said: "I welcome the proposed measures that will help trustees to focus on long-term planning and risk management, reflecting the good practice that many well-run DB schemes already demonstrate, and enable TPR to regulate DB scheme funding more efficiently and robustly in the future.

"We will now take into account the draft regulations as we shape our new DB Funding Code of Practice, which we expect to consult upon in the autumn.

"We want schemes to have the continued flexibility on funding to suit their circumstances, while improving journey planning and security for pension savers over the long term."

However, LCP has warned that the new funding rules risk forcing all schemes into a 'one-size-fits-all straitjacket', leading to potential employer insolvencies in some cases.

Schemes will be required to reach a funding level where no additional funding is expected to be needed from the sponsor, and to then lock in that low dependency through a low-risk investment strategy by the time they are 'significantly mature'.

LCP analysis found that nearly 10 per cent of its UK scheme clients could already be categorised as significantly mature under the rules, with the firm estimating this proportion will rise to around half of schemes within a decade.

While it acknowledged there would

be a measure of flexibility in how schemes get to that state, particularly prior to being significantly mature, LCP said that under the proposed regulations there would be very little flexibility for schemes after that time.

The consultancy warned that this was a 'one-size-fits-all' solution that did not reflect the diversity of the DB pensions

### **"Most DB schemes are well managed. However, despite the safeguards in place, best practice is not universal"**

landscape and would be unsuitable in several cases.

LCP highlighted that some schemes have a relatively weak employer that may not have the resources to top up scheme funding to the required level in time, which, in some cases, could see the sponsoring employer being asked for "unaffordable levels" of pension contributions and be at risk of insolvency.

Analysis of its clients suggested that up to 5 per cent of schemes could currently be in this position.

LCP warned that this could leave trustees with a choice of either breaking the law by maintaining current investment and funding risk in the scheme or complying with the new law and potentially forcing the sponsoring employer into insolvency.

LCP also said that the DWP's impact assessment offers no measure of the scale of these additional costs, noting that the DWP said the impact of the new regime could only be assessed once TPR's funding code has been published.

However, TPR is only expecting to

publish its code for consultation once the regulations have been agreed, and TPR can only work within the framework of the law, which means there will be no official data on the impact of the DWP's measures in its own right, LCP added.

Meanwhile, Mercer has said that the new regulations could accelerate the "demise of DB" schemes with an increased demand for pension liability buyouts.

Mercer noted that the new regulations could require almost all UK DB pension schemes to divest entirely of return-seeking assets, the majority by 2040, which it suggested could prompt capacity concerns in future.

According to Mercer chief actuary, Charles Cowling, the regulations will likely force an accelerated end-game of UK DB pension schemes over the next 10-15 years, with a potentially "significant and dramatic" impact.

In particular, Cowling said that the draft proposals would force the sale of £500bn of return-seeking assets, which could result in around £200bn of liabilities being added to the balance sheets of employers with DB schemes over the next 10-15 years.

Although Cowling welcomed the move to a safer pension environment, he warned that the proposals could come at a high cost, and currently focus on DB pensions, rather than defined contribution schemes, that "millions of people currently working will rely upon in future".

"If adopted, these draft regulations will significantly change the pensions landscape and make the operation of DB schemes more challenging, particularly smaller schemes," he said.

 **Written by Sophie Smith and Jack Gray**



## PensionBee accuses providers of abusing new transfer rules

✓ **New pension transfer rules have created some tension amongst providers, with the DWP and TPR having to release a statement in an effort to address concerns**

**P**ensionBee has written to Pensions Minister, Guy Opperman, accusing several pension providers of abusing new pension legislation to block or delay consumers from moving their pensions.

In the letter, PensionBee stated that the regulations appear to have been misused in a “variety of inventive ways”, including adding new “obstructive steps” to the transfer process to freeze “legitimate” transfers.

Providers reported to the Department for Work and Pensions include The People’s Pension (TPP), Creative Pensions Trust, HS Admin, Cushon, Workers Pension Trust, XPS and Railpen.

PensionBee claimed that individuals have been presented with a variety of reasons for transfer delays, including concerns about international investments and routine rewards of a modest monetary value.

It added that some consumers had noted that investments in US indices, such as the S&P 500, may be triggering the delays.

In response to the accusations, some providers have noted that their lawyers have advised that some of PensionBee’s marketing initiatives fall within the meaning of an ‘incentive’ under the new regulations, which state that any transfer that has been incentivised cannot proceed as a statutory transfer.

The regulations in question were introduced in November 2021, and enable providers to flag transfers that showed signs of a potential scam and block them on the basis of listed criteria.

Following the claims, The Pensions Regulator (TPR) and the Department for Work and Pensions (DWP) issued updated guidance and clarification in an attempt to minimise the tension.

However, industry experts have suggested that legislative changes may be needed to address concerns around pension transfer regulations, despite the updated guidance and clarification.

**“Until this is tested... many trustees will rightly err on the side of following the wording of the legislation”**

TPR and the DWP issued a joint statement and updated the regulator’s guidance to provide further clarity on the issue, which confirmed that whilst the presence of an incentive could mean there is no statutory right of transfer, trustees could allow a discretionary transfer if scheme rules allow and if due diligence shows the transfer is at low risk of a scam.

The joint statement emphasised that whilst the regulations are not intended to impose additional burdens on schemes or administrators, or to impact on standard business practices, urging trustees to adopt a “risk-based approach”.

It stated: “The government remains committed to individuals being able to

make decisions about their pension pots but wants to enable trustees to play their part in preventing members from being scammed.

“Where a transfer causes no concern, which should be the vast majority of cases, they should proceed with no further action required.

“Where trustees believe the regulations mean there is no statutory right to transfer but they have concluded following due diligence that the transfer is at low risk of a scam, trustees can grant a ‘discretionary transfer’ where scheme rules allow.”

The joint statement also confirmed that the DWP will consider this issue further as it takes forward its review of the regulations, with work currently underway to meet the commitment to publish a report on the regulations within 18 months of them going live.

However, LCP senior consultant, Daniel Jacobson, warned that there still remains a “fundamental mismatch” between TPR’s guidance and the wording of the legislation, arguing that the DWP should bring this review forward and make legislative changes.

“Until this is tested by a case going before the ombudsman or the courts to set precedence, many trustees will rightly err on the side of following the wording of the legislation, even if this is not the stated intention of it,” he stated.

“Although the DWP has committed to a review of the regulations within 18 months, that still leaves the industry with around a year to go.”

✓ **Written by Jack Gray and Sophie Smith**

# Govt publishes dashboards consultation response

✓ In its consultation response, the government confirmed that the deadlines for the first two pensions dashboards staging cohorts have been deferred by two months, with master trusts with 20,000+ members and DC schemes used for auto-enrolment with 20,000+ members affected

The government has published its response to its consultation on the draft regulations for pensions dashboards, revealing that the deadlines for the first two staging cohorts have been deferred by two months.

While connection can still begin from 1 April 2023, the consultation revealed that master trusts with 20,000 or more relevant members have had their staging deadline changed from 30 June 2023 to 31 August 2023.

The deadline for defined contribution (DC) schemes used for auto-enrolment with 20,000 or more relevant members has been deferred from 31 July 2023 to 30 September 2023.

Meanwhile, the 30 September 2023 deadline for DC schemes for auto-enrolment and master trusts with 10,000 – 19,999 relevant members has not changed.

The government said that the changes will not impact the level of coverage on pensions dashboards from September 2023 onwards.

It has also deferred the staging deadline for public service pension schemes by five months from 30 April 2024 to 30 September 2024 to mitigate the impact of the McCloud remedy implementation.

The requirement on public service pension schemes to provide value data has also been eased, to 1 April 2025 at the latest.

On data, the consultation response noted that date of birth will be included, while national insurance numbers will not be a requirement.

A provision has been included that states value data should be provided to new scheme members as soon as is practicable, but no later than either the point at which the first statement has been produced for that member or within the first 12 months of the end of the first full scheme year the individual was a member of the scheme, whichever is sooner.

## “Clear pensions information at the touch of a button will ensure savers are better informed and more engaged”

The regulations will also be altered to allow a simplified approach to be used when calculating a deferred members’ non-DC benefits.

Following concerns on the requirement to provide an annualised accrued value, the government will alter the regulations to clarify the methodology for calculating the value by required that annualised accrued values should be calculated as if the individual has reached their retirement date on the illustration date.

The response also sought to provide more detail on requirements



for additional voluntary contributions (AVC).

Pensions Minister, Guy Opperman, stated that the government remained fully committed to making pensions dashboards happen at the earliest opportunity, and that trustees or managers of schemes of all types and sizes should focus their preparations on making sure their data is ready and that they have plans in place for how they intend to connect to the digital architecture.

“For many people, a pension is the most significant financial investment they will make in their life,” he commented. “That is why the introduction of pensions dashboards is so important.

“Clear pensions information at the touch of a button, including on the state pension, will ensure savers are better informed and more engaged, while helping people to plan effectively for retirement, as well as to find lost and forgotten pension pots.

“The building and initial testing of the digital dashboards architecture is already well underway. My message to the trustees and managers of pension schemes of all types and sizes is simple: Get data ready.”

In other news, the Pensions Administration Standards Association (Pasa) has called for schemes to carry out a personal data accuracy investigation in an updated version of its dashboard data matching conventions (DMC) guidance.

➤ Written by Jack Gray and Tom Dunstan



## Concerns persist as inflation hits 40-year high

✓ **The rate of inflation in the UK has continued to increase, with the ONS confirming that annual inflation hit 10.1 per cent in July, the highest level in 40 years. In response to rising inflation, the BoE raised interest rates, with pension trustees urged to consider taking measures to lock in gains**

Industry experts have warned that the continued increase in inflation could leave retirees struggling to make their pension last, although many trustees are thought to be reviewing the way benefits are calculated to ensure savers don't miss out on "vital" retirement income.

The Office for National Statistics (ONS) confirmed on 17 August that annual inflation hit 10.1 per cent in July, up from 9.4 per cent in June, with indicative analysis from the ONS suggesting this could be the highest CPI inflation rate since 1982.

Interactive Investor head of pensions and savings, Becky O'Connor, suggested the latest rise will "heap more despair on people trying to plan a decent retirement" and "dismay" those who recently retired thinking they would be able to manage, while those who chose to retire early during the pandemic may now be regretting that decision.

However, trustees are taking action to help ensure that savers don't miss out on "vital" retirement income, according to XPS Pensions Group.

Previous analysis from XPS Pension Group's DB UK Funding Watch revealed that UK defined benefit (DB) long-term liabilities over the past three months have reduced by around £100bn as a result of falling long-term inflation expectations.

Despite this, XPS has pointed out that majority of increases to members' benefits will be based on short-term inflation rates published later in 2022, which are expected to continue to be into double digits.

This, according to the firm, may mean that a DB member choosing to retire in early 2023 could see a material increase in their pension compared to retiring at the end of 2022 due to their benefit receiving an additional inflationary increase in 2023, which could represent £10,000 worth of extra pension, a 7 per cent difference.

**"We would recommend that all pension schemes take time to review the factors they have in place in the context of high inflation"**

However, XPS Pensions Group senior consultant, Charlotte Jones, suggested that "a lot of trustees" are already reviewing the way that members' benefits are calculated to ensure that no one loses out on these high inflationary increases.

"For example, early retirement factors, which reduce a member's pension on early retirement to allow for the pension being paid for longer, may not offer fair value to members in this current high inflationary environment," she explained.

"As a result, we're seeing many trustees adjust retirement quotes temporarily to ensure that members don't miss out on vital retirement income."

Meanwhile, pension scheme trustees should strongly consider taking measures to lock in gains amid rising long-term government bond yields and interest rates, according to XPS.

The Bank of England (BoE) increased interest rates by 0.5 percentage points to 1.75 per cent on 4 August, the largest increase in 27 years, in response to soaring inflation.

XPS Pensions Group actuary, Tom Birkin, noted that although the interest rate rise was the largest in a generation, it was largely anticipated by markets.

Interest rates have risen by 1.65 per cent in the past eight months, with a similar rise in long-term government bond yields reducing a typical UK defined benefit (DB) scheme's liabilities by over 20 per cent and a typical scheme's funding levels increased by 12 per cent during that time, according to Birkin.

"Most commentators are expecting rates to rise to above 2 per cent by the end of the year, but with the future far from certain, pension scheme trustees should strongly consider taking measures to lock in some of these gains by reducing levels of risk in their investment strategies or securing members' benefits with an insurance company," he added.

LCP partner, Jonathan Camfield, said that whilst much of the interest rate hike was already priced into markets, the further increase in inflation outturn that the BoE is expecting will be of more immediate interest to pension schemes.

"The longer high inflation continues, and the higher it gets, the more challenging it will be for pension schemes to navigate," he added.

✉ **Written by Sophie Smith and Jack Gray**

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## Pensions industry legal update - August 2022

✔ ***Pensions Age* takes a look at some of the recent law developments in the pensions industry and the legal considerations that should be at the top of trustee agendas, including pensions dashboard deadlines, the incorporation of the CMA order into legislation and new climate reporting requirements**

While the sun may still be shining, the back-to-school season is in full swing, and as students begin to return to their studies, the pensions industry has a number of legal considerations to be preparing for.

In a recent update, Squire Patton Boggs (SPB) noted that trustees who run a non-standard pension scheme set up under trust should “take note”, as they only have until 1 September 2022 to register their pension scheme with HMRC’s Trust Registration Service.

According to Sackers, trustees may also wish to confirm with investment advisers whether there are any further actions for their scheme in relation to LIBOR, after the Financial Conduct Authority (FCA) outlined further actions needed in relation to LIBOR transition earlier this month.

SPB pointed out that 1 October will see “the usual flurry of pensions legislation that comes into force”, as pension schemes with £1bn or more in assets will come into scope of the climate change and governance reporting requirements, as well as new Paris-aligned disclosures for all schemes subject to the TCFD requirements.

Commenting on the upcoming TCFD requirements, Sackers noted that The Pensions Regulator (TPR) has acknowledged the challenges faced

by some schemes in relation to the availability, quality and consistency of data used when carrying out climate-related reporting obligations.

In light of this, Sackers pointed out that TPR does not anticipate issuing any penalty notices to trustees of schemes that publish their first reports over the coming months, except where the report has not been published or it is clear the trustees have not made a genuine effort to comply.

### “1 October will see the usual flurry of pensions legislation that comes into force”

Climate is not the only area of focus though, as 1 October will also bring new regulations introducing simpler annual benefit statements for those pension schemes that provide defined contribution benefits only, which are also used for automatic enrolment purposes.

Under the new regulations, these schemes will be required to produce information in a format that does not exceed one double-sided sheet of A4 or the equivalent if issuing an email or online statement.

Regulations incorporating into pensions legislation the Competition and Markets Authority (CMA) order in relation to the investment consultancy and fiduciary management market will also be introduced from 1 October.

“Hopefully, this will simplify the

compliance certification process for trustees, who will no longer have to make a direct submission to the CMA,” SPB stated.

“Instead, they will confirm compliance with the CMA order via the annual pension scheme return.”

TPR’s revised single code of practice is expected to be in place for autumn 2022.

In light of this, Sackers suggested that trustees should start, or continue, work now so they are in a good position to deal with any outstanding requirements when the code comes into action.

In particular, the law firm encouraged trustees to have a training session on the new code, prepare a project plan, and to carry out a gap analysis to assess how existing policies and procedures compare against those listed in the code.

Many are also expecting the long-awaited response to the notifiable events regime to be published, although SPB stated earlier this month that “we still do not know when changes to the notifiable events regime, introduced by the Pension Schemes Act 2021, will come into force”.

Preparations for pensions dashboards are also ramping up, with both pension scheme trustees and administrators urged to take action “now”.

Sackers has identified a number of steps that trustees should be taking, including pinpointing their staging date, bringing employers into the loop, and getting their data “dashboard ready”.

✔ **Written by Sophie Smith**



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# Rail strikes continue amid pensions dispute

✓ **Several days of strike action took place over the summer due to an ongoing dispute over pensions, pay, working conditions and job cuts. While negotiations have been ongoing, an agreement is yet to be reached and further strike action is planned for this month**

Further strike action was conducted by rail and London Underground workers on 18, 19 and 20 August amid a continuing dispute over pensions, pay, working conditions and job cuts.

Members of the Rail, Maritime and Transport Workers (RMT) union and rail workers in the Transport Salaried Staffs' Association (TSSA) staged the walkout, which follows similar industrial action on 21, 23 and 25 June.

RMT argued that changes to the Railway Pension Scheme and the Transport for London (TFL) scheme would cut benefits, make staff work longer and pay increased contributions.

Over 50,000 workers across Network Rail, London Overground, London Underground and 14 other train operating companies walked out following no breakthrough in talks between employers and the union.

Strike action took place on the rail network on 18 and 20 August, and on the tube and London Overground on 19 August.

RMT members on London Overground and London Underground voted for strike action after rejecting what they described as a below inflation pay increase offer.

The walkout was staged amid accusations that government "interference" was preventing employers to produce satisfactory settlements.

RMT general secretary, Mick Lynch, has been regularly appearing in the media as he pushes for the campaign to

achieve national coverage.

Commenting on the strike action, Lynch stated: "Network Rail have not made any improvement on their previous pay offer and the train operating companies have not offered us anything new.

"Tube bosses are having secret negotiations with the government about cutting costs by slashing jobs and undermining working conditions and pensions.

**"The government needs to stop its interference in these disputes so the employers can come to a negotiated settlement with us"**

"Network Rail is also threatening to impose compulsory redundancies and unsafe 50 per cent cuts to maintenance work if we did not withdraw strike action.

"The train operating companies have put driver only operations on the table along with ransacking our members terms and conditions.

"RMT will continue to negotiate in good faith, but we cannot tolerate being bullied or hoodwinked into accepting a raw deal for our members.

"The government needs to stop its interference in these disputes so the employers can come to a negotiated settlement with us."

The RMT also wrote to Secretary of State for Transport, Grant Shapps,



demanding that the government "ends its deliberate policy of prolonging rail disputes for political reasons".

"Instead of waging an ideological war against rail workers millions of voters would rather that the government allow for a fair negotiated settlement," Lynch said.

In response to the continued strike action, a Department for Transport spokesperson said: "Yet again, for the sixth time since June, union leaders are opting to inflict misery and disrupt the day-to-day lives of millions instead of working with industry to agree a deal that will bring our railways into the 21st century.

"It's clear strikes are not the powerful tool they once were and union chiefs are no longer able to bring the country to a standstill as, unlike them, the world has changed and people simply work from home. All these strikes are doing is hurting those people the unions claim to represent, many of whom will again be out of pocket and forced to miss a day's work.

"We urge union bosses to do the right thing by their members and let them have their say on Network Rail's very fair deal, which will deliver the reforms our rail system urgently needs. It's time to get off the picket lines and back around the negotiating table – the future of our railway depends on it."

➤ **Written by Jack Gray**

# Auditing for pensions

## ➤ Zoe Plowman explores developments within pension scheme auditing

**E**nsors Accountants LLP has been providing pension scheme audit services to clients since the introduction of the Pensions Act 1995 and have built up a sizeable portfolio of pension scheme clients. As a result, we can boast an established and experienced specialist pension scheme team. Our portfolio of clients includes a range of sizes from the small, self-administered scheme to larger defined benefit/contribution and also hybrid schemes, with several hundred million of assets.

Ensors Accountants LLP are proud to have won Pensions Accountancy Firm of the year at the 2018 and 2022 Pension Age Awards, demonstrating our commitment to the sector.

In the past few years, we have seen a multitude of changes that have culminated in a shock to the global economy. This feature discusses the impact this has had on pension scheme auditing together with details of an important, upcoming change.

### How has pension scheme auditing been affected by the uncertainties of the past few years?

The Covid-19 restrictions brought many challenges for trustees. Navigating the deep uncertainties that this created for the sponsor and potentially the pension scheme was not an easy task. Many trustees found themselves in detailed conversations with their auditors in relation to going concern. Whilst Covid affects appear to be largely under control now, new challenges arise such as the conflict in Ukraine, rising inflation rates, the tight labour market and supply chain disruption. These present similar challenges when considering going concern and the effect of the employer covenant.

*ISA 570 states that a scheme is considered a going concern unless the trustees have taken the formal decision to wind up, or a notice has been served to wind up the scheme or a trigger event has occurred which indicates that there is no alternative to wind up, such as contributions having stopped, or the employer has experienced an in-solvency event.*

*We are also required to report material uncertainties too, ie the employer entering the PPF assessment period, the employer experiencing financial difficulties and contributions that are consistently late.*

Understanding the impact this has on the sponsoring employer or wider group and constantly reappraising this in light with the changing economic environment is key to understanding the impact on the pension scheme's funding position.

As auditors, we will be looking at the trustee's assessment of the employer in consideration of scheme funding, however it is important to be aware that many of the wider economic issues will also have a direct impact on the scheme itself. It is key that trustees ensure that they fully understand the impact on their scheme, to allow time to adopt sufficient hedging strategies in consideration of their long-term funding objectives.

The Pensions Regulator has issued guidance for trustees with regard to the conflict in Ukraine. As auditors we will be looking for evidence that trustees have assessed the impact on their scheme, particularly regarding the investment portfolio. The trustees must prioritise their fiduciary duties in this regard, but also consider members personal views, the environmental social and governance



policy and the scheme's Statement of Investment Principles.

### What's upcoming for pension scheme auditing?

ISA 315 is effective for audits of financial statements for periods beginning on or after 15 December 2021. It deals with identifying and assessing the risk of material misstatement through understanding the entity and its control environment. This is not a new concept at all, but the revised ISA clarifies that the auditor should:

- Perform a separate assessment of inherent and control risk
- Consider a spectrum of inherent risk considering the inherent risk factors of; complexity, subjectivity, change, uncertainty, management bias or any other fraud risk factors in so far as they affect inherent risk.
- Clearly understand the entity's IT environment, to identify and assess the risks of material misstatement arising from the use of IT related to the IT applications and other aspects of the entity's IT environment.
- Show an enhanced use of professional scepticism throughout the risk assessment process.

Having early conversations with your auditors is advised to assist with gathering additional information needed. Identifying risks in this volatile economy may be more challenging than you think!



➤ **Written by Ensors**  
Accountants associate partner,  
Zoe Plowman

In association with

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# USS reveals £1.8bn funding surplus

✓ **The scheme's latest Financial Plan Monitoring Report showed a surplus of £1.8bn, a £15.9bn swing from the £14.1bn deficit recorded at the last valuation in March 2020. Assets had increased by £11.1bn and liabilities had reduced by £4.8bn**

**T**he Universities Superannuation Scheme (USS) recorded a £1.8bn surplus as at 30 June 2022, representing a £15.9bn increase from the £14.1bn deficit recorded at the last valuation in March 2020.

The latest *USS Financial Management Plan Monitoring Report* revealed that scheme assets totalled £77.6bn as at 30 June 2022, up by £11.1bn since March 2020, whilst liabilities on a technical provisions basis had fallen by £4.8bn to £75.8bn.

The fall in liabilities was attributed to rising nominal gilt yields, partly offset by higher inflation expectations and lower future expected returns relative to gilts, due to the high returns experienced to some extent.

In addition to this, the report revealed that the future service

contribution requirement has fallen due to higher nominal gilt yields, while the 2.5 per cent cap on annual inflationary increases for benefits earned since 1 April 2022 limits the impact of changes in expected inflation on the future service cost.

It also confirmed that, if at the next valuation there is a significantly improved financial position relative to the 2020 valuation, it may be possible to increase benefits, decrease contributions or do a combination of both.

However, the report noted that market conditions remained “highly volatile”, since the assumptions were last looked at in more detail as part of the accelerated year-end review in March 2022.

The USS has also faced calls to reconsider recent changes to the scheme in light of the funding improvements, with the University and College Union



(UCU) urging USS Employers to “restore pension benefits” to avoid “unprecedented” strike action.

The union confirmed that a total of 68 universities will be balloted over changes to the USS from 6 September.

However, USS Employers stressed that the current pension contributions from employers are “at the very limits of collective affordability and sustainability.”

✎ **Written by Sophie Smith**

## NEWS IN BRIEF

➤ The **EDS 1994 Pension Scheme** has agreed a £1.1bn buy-in with Pension Insurance Corporation (PIC), securing retirement benefits for all of the scheme's 3,000 pensioners and 2,300 deferred pensioners. The trustee was advised by Mercer and Sackers, which included upfront insurer due diligence reports prepared by DLA Piper and ITM, while the company was advised by Mercer and Eversheds, and PIC was advised by Addleshaw Goddard.

➤ The **Financial Conduct Authority** has launched a consultation on the methodology used to calculate redress

for consumers who suffered financial loss from transferring a defined benefit pension to a defined contribution pension following non-compliant advice. The consultation, which closes on 20 September 2022, follows a periodic review of the FCA's methodology for consumers in this position, including former members of the British Steel Pension Scheme.

➤ The proportion of members transferring their pension rose 41 per cent to an annualised rate of 41 members per 100,000 in July 2022, **XPS Pensions Group** has revealed, the highest rate

since January 2022 but “far below” the volume of transfer activity of recent years. XPS's Scam Flag Index found that 94 per cent of transfer cases showed at least one scam warning sign.

➤ The trustees of the **McColl's** pension schemes confirmed that Morrisons has now completed its rescue of the TM Pension Plan and the TM Group Pension Scheme. The two schemes have now formally exited their Pension Protection Fund assessment periods, with Alliance Property Holdings Limited, a subsidiary of Morrisons that now trades as McColl's, to become the new sponsor.

# Stopping pension scammers in their tracks

✓ **Jonathan Watts-Lay highlights the actions trustees and employers can take to help people avoid falling victim to pension scams**

**P**ension scams are a persistent problem that have a devastating impact on those who become victims. Our research\* with the Pensions Management Institute shows that a staggering 92% of trustees expressed that they have fears their members approaching retirement will be targeted by scammers.

The strain on household finances caused by the cost-of-living crisis could mean that some members are more vulnerable than ever this year. With almost a quarter (22%) of UK adults having reported being approached by scammers offering free pension advice or a free pension review, investment opportunities, or a tax refund between March and May this year, it's clear that these fears are well founded.

Defined benefit (DB) pension transfers are a particular area of concern, and the XPS Pensions Group has reported an all-time high in July of 97% of transfer cases as having one or more scam warning sign. Indeed, the majority (86%) of trustees in our survey\* have concerns over this. It's unclear yet if the measures put in place to enable trustees and scheme managers to block or pause suspicious transfers have helped the situation.

The Pensions Regulator (TPR) has recently launched its new scam fighting strategy in light of concerns that the cost-of-living crisis may leave savers more vulnerable to scammers. The strategy will build on TPR's pledge to combat

pension scams campaign which includes providing regular scam warnings, encouraging members considering cash drawdown to access guidance services, to carrying out checks and provide warnings on high-risk transfers.

Trustees and employers play a key role in ensuring members make informed choices concerning their pensions. This includes providing financial education and guidance as it can help members understand their options and what red flags to look out for. It can also help them to decide if they would like further support such as regulated financial advice, although this of course is a requirement for anyone looking to transfer a DB scheme over the value of £30,000.

Our survey\* also found that half of trustees provide financial education (50%) and almost half (48.5%) of trustees provide or facilitate financial guidance for members at retirement. We have seen marginal improvements from 2021's survey (49% provided financial education and 46% provided financial guidance) but this is no way near the levels that we should be seeing considering the concerns that are being reported by trustees. However, nearly two out of five (39%) trustees are facilitating regulated financial advice for their members\*. Encouragingly, this has seen a 9 percentage point increase from 30% since the survey was last carried out in 2021.

It's time that trustees and employers do all they can to stop pension scammers



in their tracks and put in place robust processes to support and protect members. For those looking at providers for support, carrying out due diligence on them is crucial. This should include checking that any financial education and guidance providers are workplace specialists with experience in providing support to members. This can help members understand key issues at retirement such as tax implications, risks around DB transfers and how to spot a pension scam.

Due diligence on regulated advice firms should cover areas such as qualifications of advisers, the regulatory record of the firm, compliance process eg compliance checks of 100% of cases, pricing structure, and experience of working with employers and trustees. This now needs to be about striving for good member outcomes and not minimal compliance, as many years of pension savings can be lost in the blink of an eye.



Written by WEALTH at work director, Jonathan Watts-Lay

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\* The survey was conducted by WEALTH at work and Pensions Management Institute. You can see the full report at [www.wealthatwork.co.uk](http://www.wealthatwork.co.uk)

## Appointments, moves and mandates



Christine Sawyer

➤ **The Pension Scams Industry Group (PSIG) has named Christine Sawyer as chair of its Pension Scams Industry Forum (PSIF).**

Sawyer, who is currently Invensys Pension Trustee Limited scheme manager, has over 20 years' experience in the pensions industry. She takes over the role from Tommy Burns, who held the position since its inception, although Burns will remain in

his role as PSIG deputy chair. PSIG chair, Margaret Snowdon, commented: "I would like to thank Tommy for all his sterling efforts getting us to this point and I am very much looking forward to working with Christine, who I know will continue to keep us one step ahead."

➤ **Cardano has been appointed fiduciary manager for three Unisys pension schemes.**

Following a competitive tender process, the Unisys UK pension trustees appointed Cardano to act as the fiduciary manager of the Unisys Pension Scheme, Unisys Payment Services Pension Scheme (Unisys Section), and Unisys Public Sector Pension Scheme. Under the mandate, Cardano will provide services including investment advice, investment management, sustainable investing and risk management for the schemes' £1.2bn assets including growth and liability hedging portfolios. Isio advised the trustee throughout the selection process. "We are delighted by this appointment and look forward to working with the trustee, the schemes' sponsor and other advisers to help secure members' benefits," Cardano partner, Patrick Cunningham, stated.



Anish Rav

➤ **Smart has appointed Anish Rav as director of retirement.**

The newly created role of director of retirement will look to build on the firm's global retirement technology platform, Keystone. In his role, Rav will be responsible for the overall design and management of all retirement products, solutions and related platform capabilities, features and services offered by Smart.

This also follows the appointment of Stuart Reid as director of workplace pensions. Reid has extensive experience in the UK pensions industry, having previously worked for Scottish Widows, as well as WTW, Capita Employee Benefits and Standard Life.



Sasha Jain

➤ **Punter Southall Governance Services has named Sasha Jain as client director.**

Jain previously spent 15 years as an investment consultant at Mercer, specialising in DB schemes of between £250m and £5bn+. She has extensive experience working with trustee boards and corporate stakeholders on a variety of in-vestment-related issues. Jain began her career in asset management with roles

at Merrill Lynch Investment Management (now BlackRock) and Pimco. As well as taking on professional trustee appointments, she will be supporting the team on a range of investment issues and leading specific service areas, such as fiduciary manager selection exercises.



Marlene Shiels

➤ **The Money and Pensions Service (Maps) has announced the appointments of four new non-executive directors to its board.**

Capital Credit Union CEO, Marlene Shiels, Neyber co-founder and chief strategy officer, Monica Kalia, BT Group independent non-executive director, Sara Weller, and Arts University Bournemouth governor, Simon Hamilton, will join the board from 1 September 2022. Non-executive members of the Maps board are responsible for providing oversight, governance and direction to Maps to help it meet its statutory objectives. The new appointments will join chair Sir Hector Sants, Ann Harris and Alex Heath, among others, on the board. Shiels has more than 30 years of experience in the credit sector and holds a membership role at the HMT Financial Inclusion Policy Forum. Previously, she held the position of chair on the FCA Smaller Business Practitioner Panel and was a member of the FCA Practitioner Panel until June 2022. Kalia has been

recognised by Forbes as one of the top female leaders in fintech and has over 25 years of experience in the financial services sector. Her previous jobs include roles at the Bank of America, Credit Suisse and Goldman Sachs. Weller bring an extensive background in non-executive roles across the public and private sectors to the board, and has experience in customer-focused operations. Hamilton has had an executive career of more than 30 years in the financial services, split between management consulting and strategic leadership roles in three mutuals, including eight years at Nationwide Building Society.



James Silber

✎ **LCP has announced the appointment of James Silber as principal to its covenant team.**

Silber joins the firm from PwC, where he was a senior manager in the pensions employer covenant and restructuring team. He has experience in employer covenant advisory, advising trustees and corporates on some of the UK's largest DB schemes, and working on developing approaches to incorporating climate-related factors into employer covenant reviews and assisting with TCFD processes. Previously he worked at The Pensions Regulator as a business analyst, supporting on policy including assisting with the preparation of Annual Funding Statements.



Alison Hatcher

✎ **The Pensions Regulator (TPR) has announced the appointment of Alison Hatcher as a non-executive director.** She was appointed by the Secretary of State for Work and Pensions, with effect from 1 August, following an open competition recruitment process. The appointment will run until May 2027. Hatcher is also HSBC Retirement Service CEO, and previously worked as global head of pensions in the client strategy team. As well as being one of the founders of Women in Pensions, Hatcher is on the Pensions and Lifetime Savings Association (PLSA) Diversity Advisory Board, Efama Pensions Standing Committee, and a member of the investment sub-committee for Warwick University.



Paul Smee

✎ **Now Pensions has appointed Paul Smee to its board of directors.**

Smee, who succeeds Laurie Edmans, is also a board member of the Regulator of Social Housing and member of the Gibraltar Financial Services Commission. Prior to this, he was director general of the Council of Mortgage Lender from 2011 to 2017, and ran the Association for Payment Clearing Services. He was also the first Director General of the Association of Independent Financial Advisors from 1999-2004. Smee said: "I'm very much looking forward to my new role on the Now Pensions Limited board and working with the team to continue to support our members and employers."



Sara Cook

✎ **The Pensions Management Institute (PMI) has announced the appointment of Sara Cook as its next president, effective immediately.** [see p52 for Cook interview.]

Cook will also chair the Advisory Council, and sit on the board as a non-executive director. Having begun her career in pensions administration, Cook has worked in-house, as a pensions manager, and in consultancy. She joined Barnett Waddingham in 2013, where she is now a principal. Lesley Alexander, who previously held the role of president for two one-year terms, is standing down from the role by rotation, having also served two consecutive terms on the advisory council, and been a board member since 2017.

✎ **The London Borough of Bexley Pension Fund has announced the appointment of Redington as its investment consultant.**

The fund, which has around 17,000 members and is part of the Local Government Pension Scheme (LGPS), stated that developing its approach to responsible investment and stewardship, alongside evolving strategic allocation, has been a "key priority". In line with this, supporting the investment committee on further progressing its investment objectives in both areas, and recognising the need to focus on climate risk management, is expected to be "a core focus of the mandate going forward". Commenting on the appointment, Tri-borough director, Phil Triggs, said: "We have always been very conscious of our duty as investors and are committed to demonstrating good corporate governance and responsibility via our investment strategy. Redington's deep understanding of the challenges faced by the LGPS, coupled with its responsible investment expertise and structured approach to risk management, really set them apart during the selection process. The team's input and expertise will be invaluable as the Fund progresses on the next stage of its journey."

Adding to this, Redington head of LGPS, Jill Davys, said that the investment landscape has "never been more complex for the LGPS, particularly given the increasing emphasis on responsible investment and stewardship".

"Against this backdrop, it's been hugely encouraging to see so many funds wanting to channel their influence in this area to greater effect," she continued. "Bexley is in a strong position and we are hugely excited by the opportunity to partner with them to provide additional financial security for stakeholders and help build a more sustainable future."



## View from the PLSA: Engagement season

**It's fair to say that this year has been a busy one for the pensions industry and included the announcement of the launch the UK's first-ever Pensions Engagement Season.**

Led by the PLSA and the ABI, the three-year campaign will see over 30 million pension savers being supported by the co-ordinated industry initiative with the aim of boosting people's understanding and engagement with their pensions.

Research by the ABI suggests that as little as 20 per cent of people feel confident that they are saving enough for retirement

and without any action to save more, millions of people risk not having enough money to meet their needs.

Therefore, the Pensions Engagement Season will run – for 2022 – during the autumn and winter with the aim to make pensions more accessible and understandable for savers.

Pensions Engagement Season will share tips on how savers can identify their pension providers, make contact details up-to-date and check their retirement saving levels. It will also help people prepare for pensions dashboards.

The campaign is getting the industry excited. To date, many providers and schemes have committed support and we are delighted with this as it remains vital to have their support to ensure the success of the project.

**PLSA director of policy and advocacy, Nigel People**

**PENSIONS AND LIFETIME SAVINGS ASSOCIATION**



## View from the PMI: Trustee board diversity

**In recent years, The Pensions Regulator (TPR) has done much to encourage higher standards of scheme governance. It has introduced a range of initiatives designed to help trustees implement higher standards of governance.**

One aspect of trusteeship currently investigated by TPR is the extent to which trustee boards consider the importance of diversity & inclusion (D&I) in their composition. Whilst critics might complain of a 'woke' regulator, the reality is that a board made of trustees from differing backgrounds – be they differences of age,

gender, social and ethnic origin or sexual orientation – are far more effective in avoiding the pitfalls of groupthink and so are more likely to achieve effective decision making.

There are a number of practical problems to be addressed in establishing genuine diversity on a trustee board. It is clearly undesirable to remove trustees with experience and proven ability simply to introduce members with a different background. The appointment of member-nominated trustees (MNTs) cannot be guaranteed to introduce diversity to

a board and may actively obstruct it. However, a properly committed board with a properly implemented succession planning policy will be expected to achieve genuine diversity over time. This in turn will result in higher standards of scheme governance, which can only be in members' best interests.



**PMI director of policy and external affairs, Tim Middleton**



## View from the AMNT: Pension governance

**'Soccer is a simple game. It's the players that make it complicated.'** (Willie Watson, Manchester United)

Trustees, in articles, webinars or conferences, are being told that pension governance is increasingly complex. This statement is a mantra for the industry and is now in danger of becoming a truism.

Dealing with the intricacies of pension funds have never been easy and changes in social and legal positions do not make life any easier. But being a trustee for a pension fund is not a singular exercise, even for 'sole

trustees. Advice and assistance are obtained from a variety of sources, usually with a cost attached. Many of us know how to drive a car but would be hard pushed to explain the workings of the internal combustion engine, so we willingly pay mechanics to ensure the car is in working order and does what we want it to do. Similarly, trustees seek advice and guidance on 'complex' issues then use that information to drive the fund forward.

The creation of a team of dedicated individuals, whether paid or voluntary, is key to building a viable and trustworthy

group who can understand and respond to the pension complexities. So, to end as I began, with a sporting metaphor: *'No cricket team in the world depends on one or two players. The team always plays to win.'* (Virat Kohli)

**AMNT member, Stephen Fallowell**



Association of Member Nominated Trustees



# Smart Pension: Transforming workplace pensions

➤ **Smart Pension was founded in the UK to challenge traditional practices through a significant technology advantage. Smart UK CEO, Jamie Fiveash, talks about how Smart Pension is transforming workplace pensions, as it continues its commitment to the UK market and UK savers**



**F**rom real consolidation of master trusts (not simply conglomerating, with existing cost structures), to bringing global knowledge to the UK market, handling cyber security out of the box and scaling from zero to almost a million savers in seven years, our focus on tech has set us apart from the market. Over the past seven years, Smart Pension has grown to serve almost a million savers and more than 70,000 businesses in the UK.

## **Our approach to technology is entirely different from anyone else in the UK market.**

Smart Pension is built upon Keystone by Smart, a first-of-its-kind global retirement platform that allows us to bring the best knowledge and functionality from across the world to the UK market. Built in a 'member first' model, this technology also allows us to achieve things like real consolidation. Whereas some in the market may acquire other master trusts, and run them

separately without passing on the benefits of scale and lower cost structures to members and employers, Smart Pension uses technology to migrate any number of savers to our highly efficient platform, invest further in serving them, and still deliver radically greater value.

## **Our UK transformation plans**

We are hugely committed to the UK, and improving lives for employers and savers here. We have a newly-expanded division focused on delivering to the needs of larger workplace clients.

## **The world's first global, cloud-native retirement technology**

Smart Pension is powered by Keystone by Smart, the first global, cloud-native technology platform specifically designed for the workplace retirement savings industry - bringing ideas from global success to the UK. This technology enables everything from apps and web-based tools for employers and employees to full data migrations, allowing the movement or consolidation of hundreds of thousands of UK accounts with ease.

## **Net zero by 2040**

We are committed to sustainability and working with leading fund managers to deliver a carbon-zero default fund by 2040. Our ability to fully consolidate acquired master trusts will allow us to significantly upscale sustainable investment holdings. We recently published our commitment that our

default growth fund will be net zero by 2040, without carbon offsetting, and to have reduced emissions by 50 per cent by 2025. This is 10 years earlier than 2050, which is when most pension providers are committing to be net zero.

## **Agile technology flexes to all situations, including self-employed**

Our technology can react to customer demand and deliver change quickly, tailoring to specific employment needs such as the different patterns of the self-employed. This has resulted in Smart Pension being appointed by Evri to provide a workplace pension scheme to 12,000 "self-employed plus" couriers, the biggest dedicated parcel delivery company in the UK. Formerly known as Hermes UK, who work alongside 80 per cent of the UK's top retail brands including Next, ASOS and John Lewis. The appointment comes after the announcement by Evri that it will automatically enrol 'self-employed plus' couriers in a workplace pension scheme, a move welcomed by the GMB union as a "massive step forward".

[www.smartpension.co.uk](http://www.smartpension.co.uk)



➤ **Written by Smart UK CEO, Jamie Fiveash**

In association with

 **Smart Pension**



## VIEW FROM TPR: Time for trustees to strengthen their scam defences

**TPR's scams strategy spells out our ambition is to create a world where everyone is informed of the risk and protected against pension scams.**

When we launched our scam-beating plan, I was clear that the job of protecting savers could not be done by TPR alone.

I explained we needed industry to lead the way, both in thinking of innovative ways to beat scammers and by trustees and administrators doing everything they could to ensure savers are protected.

Almost two years ago we launched our Pledge to Combat Pension Scams, which offered trustees the opportunity to publicly

demonstrate their commitment to keeping savers safe from scams. We've already had more than 500 organisations and schemes make the pledge or self-certify that they meet its scam beating standards and, as a result, we believe around 16 million pension pots are now better protected.

But it's not enough. That's why, throughout the summer we've called on those who have made the pledge, but not self-certified, to follow through on their commitment by completing the self-certification process.

With increases in the cost of living continuing to make savers potentially

more vulnerable to scams, trustees' role as a first line of defence may never have been more necessary.

So, I urge any trustees who haven't made the pledge to find out how by visiting TPR's website.

**TPR executive director of frontline regulation, Nicola Parish**



## VIEW FROM THE ABI: Delivering social change

**The DWP recently announced the creation of a taskforce on social factors. The taskforce will help schemes identify reliable data sources to base investment decisions on. They will also monitor and report on international standards development with regards to social factors. The ABI supports this goal.**

To fully assess investments, trustees and investment professionals need to ascertain the practices of the companies they are invested throughout their supply chain. However, current legislation does not require companies to keep the

same standards for employees in the supply chain. We hope the taskforce will drive improvement and help deliver social change for consumers, employees and investors.

We would also like the taskforce to help investors and trustees better compare firms they are invested in. This could be by standardising definitions. Currently, providers and schemes can adopt different approaches, as data sourced from third parties have different processes and wide-ranging definitions. The result, at an aggregated level, will not be as useful to companies as it does not allow for

comparisons on ESG factors between providers and schemes, or between one product and another. This makes it more difficult for investors to understand if the companies they are invested in are actually delivering on their social responsibilities.

**ABI senior policy adviser and investment platforms specialist, Reuben Overmark**



## VIEW FROM THE PPI: State pension age

**The age at which people are entitled to the state pension has varied over time – currently, it is 66 for both men and women. The government is currently conducting its second review of the state pension age, and it must weigh the evidence carefully to get the balance right.**

Setting the state pension age too low risks making the system unsustainable. The longer people live, the more state pension they draw. If people retire too soon, the system will become too expensive, and younger generations may

feel they are footing the bill. For many people approaching retirement, the government can raise the state pension age without being unfair. Besides better health at retirement and longer average life expectancies, some people also have more career options near retirement – remote working, part-time working and an economic shift away from manual labour can all make it easier to retire later and more flexibly.

On the other hand, setting the state pension age too high risks making the system inadequate. State pension forms

most, if not all, of many people's retirement income, and without it they simply can't afford to retire. The difficulty of finding new employment near retirement age, the gap left by shrinking numbers of defined benefit pension schemes, caring burdens and life expectancy inequalities mean that policymakers must be careful not to deny people a dignified and well-deserved retirement.

**PPI policy analyst, John Upton**



# Impact investing in industrials and materials?

**✓ Evgenia Molotova, senior investment management at Pictet Asset Management and manager of Pictet Positive Change, an impact equity strategy with a difference, explains how her experience in industries not usually associated with impact investing was the source of inspiration for the strategy**

In my past life I ran the subsidiary of a major US chemicals company that produced paint and ink at a factory in the middle of Moscow. I saw first-hand the repercussions of our processes – the snow outside of our factory turned all possible colours depending on the pigment we were producing that day. Workers handling toxic chemicals had little health cover and no social safety net when jobs had to be cut. The West has moved a lot of dirty industrial production to emerging markets, essentially shipping the social and environmental issues abroad but the problems remain.

Later I moved into a financial career in the City investing in cyclical stocks like oil, gas and energy. I saw the attitude towards heavy industrials gradually change during the golden age of tech, as the energy sector’s weighting fell from 10 per cent of the MSCI World Index in 2011 to 3.5 per cent in 2021. Today energy companies still generate good cash flows and returns but nobody wants to invest in them. The transition will take time. We need to continue to invest in old economy sectors, but responsibly. They are a vital part of the global economy and often the place where we most need to see change.

## Engage with the laggards

We need to look at the entire value chain and consider both positive and negative

externalities. Electric vehicles need lithium, nickel or cobalt for their batteries and even the most energy-efficient new building requires cement and steel. You may think investing in solar panels is virtuous, but a lot of coal was burnt in China to produce them.

My experience has made me look at the problem holistically. I don’t want to just buy clean energy stocks and tech stocks. Investing only in companies that have already made the transition or whose activities have a positive impact is a worthy goal, but it doesn’t solve the whole problem. We miss out on a chance to engage with the laggards, those that really need to change.

Industrials and materials are disregarded because of negative externalities yet they are very important for society. By engaging with companies’ managements, we have the opportunity to find solutions that are socially or environmentally conscious and good for the bottom line. When companies manage to transform, valuations improve. I want to look at all sectors through this impact lens.

## Are companies ready to change?

Companies are facing pressure on all fronts, from consumers, governments and investors.

Consumers’ buying habits have changed. It is now mainstream to care about the recyclability of a product or

its packaging. Governments too are shifting policy and regulation. The EU’s EUR2trillion Covid-19 recovery package came with green strings attached and governments around the world, including in emerging markets, are imposing rules on companies to drive social change.

Investors themselves are gravitating towards companies that adopt ESG strategies. All that means that companies take notice when we approach them with our engagement ideas.

## How does engagement work?

Not all companies can change. A coal mine will always be a coal mine, and even in industries that can change, management teams may be complacent, doing what they have always done. For the most part though, where there is potential to improve, we have found management teams to be receptive to our engagement objectives and keen to be part of the change – especially when we show that it creates value. We have been in talks with a major US maker of contact lenses. Each year 14 billion disposable contact lenses are flushed down sinks or toilets, so we are exploring with them the possibility of making biodegradable lenses. We have checked the feasibility with other contact lens producers, we think consumers would like that and it would create value for the company.

With the Positive Change strategy, we want to democratise impact. By investing in companies who are improving their alignment to the UN SDGs, rather than only those generating a positive impact already, investors are able to help drive change where it’s most needed and capture alpha opportunities as companies improve and re-rate.



In association with



## Soapbox: Crisis? What crisis?

The past few months in the political sphere have been busy to say the least. With the resignation of Boris Johnson in July and the tightly fought Conservative leadership election taking place across August, the position of the government has been very fluid in recent months. This change and uncertainty couldn't have come at a worse time for the country as we now face one of the biggest cost-of-living crises in living memory, with inflation reaching over 10 per cent in July and predictions forecasting that it is likely to climb even higher over the next year.

Even with the recent announcement of Liz Truss as the new Prime Minister, the perfect storm of political inaction and economic hardship continues and, in the midst of this crisis, as the government continues to drag its feet on announcing any kind of real help for the people hit the hardest, the onus falls on pension schemes to make sure savers are fully educated and prepared, not just for their current life, but for their life in retirement.

I think one area in which the pensions industry must take charge is in reminding savers of their pension's importance, both now and once the crisis has passed.

In these times of financial hardship, it is only logical that the hardest hit will look for ways to bolster their financial security. Reducing pension contributions, or even dipping into already-accrued pension pots, seem to be prime candidates for providing a greater source of income, providing more money with no immediate consequences.

Many industry professionals I have talked to have expressed worry about this issue, predicting that it could lead to retirement poverty for people choosing to seek immediate benefit from their pension, so the danger of this issue shouldn't be underestimated.

However, I do think that the industry may have to face the reality that this is just an action that some people may have to take. As news comes to light of businesses experiencing a five-fold rise in their electricity bills and parents not having enough money to feed their

children, I would not feel comfortable telling the hardest hit to continue contributing to their pension as, of course, they will not need a pension if they can't get to retirement.

In this context, I believe the pensions industry should continue to encourage a continuity of contributions into pensions but, more importantly, be compassionate in their conduct towards those who are struggling the most.

I believe that the pensions industry can support the hardest hit after the crisis has become less urgent by reminding people who have paused their contributions to continue them after the crisis has passed by and they can once again afford to heat their homes in the colder months.

It is obvious that there are no easy solutions to the crisis that the country finds itself in at the moment and it is also evident that the crisis is far from over, but I think the most important thing is for the industry to act with care and compassion for those suffering the most.



Written by Tom Dunstan



### VIEW FROM THE ACA: Pension choices

**Over the summer, we responded to the DWP consultation on helping savers understand their pension choices. The response drafted by our DC committee welcomes the intent behind the consultation but stresses that to achieve the goal requires action much earlier than the period immediately ahead of retirement.**

To achieve the goal of helping savers understand their pension choices, it is critical to go beyond the period pre-retirement in order to engage individuals throughout their journey, including when in education before

entering work, and post-retirement.

Providing information and support (however well-designed and delivered) only around the retirement point will fail if engagement has not been built and maintained throughout.

The majority of members of occupational pension schemes are invested in a default investment strategy during the accumulation phase and can be part of a scheme without ever needing to make a single active decision on investments or benefits. The at-retirement and decumulation world marks a significant departure from this arrangement.

In future, we see key roles for low cost, transparent, and easy-to-manage income drawdown products to better support individuals, including potentially via 'default' decumulation pathways that mirror the FCA's investment pathways. CDC schemes will also have a part to play. There is much scope for industry innovation in decumulation.

ACA chair, Steven Taylor



ASSOCIATION OF CONSULTING ACTUARIES



Aon investment partner,  
Calum Mackenzie

# Inflation, interest rates and risk settlement

► **Pensions Age** editor, **Laura Blows**, discusses risk settlement solutions within the current investment market landscape with Aon investment partner, **Calum Mackenzie**

“The bond market at the moment is making the equity market look really boring, and the equity market is far from boring right now as anyone watching the markets can tell you.” These are “pretty unprecedented times” in the bond markets, Aon investment partner, Calum Mackenzie, says in the *Pensions Age* investment-focused podcast. This is due to “decades of falling bond yields and rising bond values unwinding really quite quickly”. The warning since the start of the quantitative easing was that it was going to cause inflation – “that’s now finally started to come through at the same time as other inflationary effects are emerging as well”, Mackenzie explains.

To counter this, central banks are raising interest rates and implementing quantitative tightening by putting more bonds back onto the market and letting bond yields drift up, he adds. The current inflationary environment is causing concern to pension schemes because it “ultimately erodes purchasing power”, Mackenzie says.

“Pension scheme members are concerned about it as well because in many cases they have benefits linked fully to inflation, but many also have caps on benefit increases,” he explains.

Short-term inflation is affecting pension schemes, Mackenzie says, in pensioner payment rises linked to RPI or CPI, at a time when their assets have been hit by inflation, along with “actuar-

ies using long-term implied inflation” to calculate liabilities.

However, the “markets have shifted their focus from inflation being the big concern over the next few years to actually a recession being the bigger concern – and that’s why you see that longer-term inflation start to actually come down over time”, he adds.

The implications of this, says Mackenzie, for schemes that are currently seeking risk settlement solutions is that, despite the negative asset valuation concerns, a positive pension scheme funding story can still be seen, because the duration of their solvency liabilities is longer than the technical provisions liabilities they are managing against. The recessionary mindset, along with credit spreads widening, has also cheapened the cost of bulk annuity deals for pension schemes with insurers.

“We’re seeing some relatively good appetite from insurance companies, depending on the deal size and transaction,” Mackenzie states. However, pension schemes have also been looking at alternatives to buyouts such as self-sufficiency, he adds. “Because [*schemes have*] seen the strong funding progression and a strong inflationary environment, they may now be thinking that they would like to have more flexibility, for example to offer discretionary increases, which they might not be able to do with an insurance company. Maybe we might want to actually keep some of this potential upside from the pension scheme and

share it with the sponsor, for example,” he explains.

On the other side, LDI providers are asking for more collateral to maintain the liability hedge it has for pension schemes. “The good news is that certainly from all of our clients, and the vast majority of those with LDI strategies in place, we have not seen any miss a collateral call. We’ve not seen any with a need to reduce their hedge levels as a result of this,” Mackenzie says. Overall, the current investment market environment has “certainly crystallised in the mind of pension schemes the need to have really strong collateral management processes”, Mackenzie states. Portfolio changes have also occurred, he notes. “There are pension schemes who have had to take assets from the liquid parts of their portfolio and they are going to have to do some rebalancing as a result, and that will probably have affected their expected risk and returns.

“The other immediate effect is the crystallisation of losses, for example, with pension schemes that have had to sell equities to meet collateral calls. Pension schemes that have had to sell less liquid assets, for example property, and use the secondary market to try and get a sale done quickly.”

Looking ahead, pension schemes are making sure they are prepared for future eventualities, Mackenzie says, through ensuring that their stress tests are robust and that they still have the required level of collateral to support their LDI arrangements.

► To listen to the podcast, please visit [www.pensionsage.com](http://www.pensionsage.com)

# Diary: September 2022 and beyond

## PLSA Annual Conference 2022

12-13 October 2022

Liverpool

Held across two days, this event will bring together more than 1,000 pension professionals for a programme of world-class keynotes, roundtable discussions, and educational sessions. Returning to Liverpool in-person for the first time since before the pandemic, delegates will be able to once again take advantage of crucial face-to-face networking opportunities, such as the drinks reception and conference dinner.

**For more information, visit:**

[plsa.co.uk/events/](https://plsa.co.uk/events/)

## Pensions Age Scotland Conference

9 November 2022

Waldorf Astoria, Edinburgh

The Pensions Age Conference is coming to Edinburgh for the first time. This conference will provide delegates with the updates they need to manage their schemes going forward, and highlight new developments in the pension space, in relation to regulation, investment, scheme design, technology, communication and more. Delegates will also have the opportunity to network with their peers, and share ideas.

**For more information, visit:**

[pensionsage.com/scotlandconference/](https://pensionsage.com/scotlandconference/)

## Pensions Age Awards 2023

21 March 2023

Great Room, Grosvenor House, Park Lane, London

The Pensions Age Awards, which are celebrating their 10th successful year, aim to reward both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. Entries are open for all UK pension schemes and provider firms serving pension schemes in the UK until 23 November 2022.

**For more information, visit:**

[pensionsage.com/autumnconference/](https://pensionsage.com/autumnconference/)

## Pensions Age Autumn Conference

NEW DATE - 31 October 2022

The Waldorf Hilton, London

This conference will offer delegates the up-to-date knowledge and guidance they need to help them run their pension schemes and meet their members' needs. The event will be an opportunity to reflect on how well the industry has risen to recent challenges and learn from those funds and providers that adapted successfully.

**For more information, visit:**

[pensionsage.com/autumnconference/](https://pensionsage.com/autumnconference/)

Visit [www.pensionsage.com](https://www.pensionsage.com) for more diary listings

### £90,000

The average retiree may need to save an additional £90,000 into their pension during periods of 'medium market performance' to maintain a comfortable retirement over 20 years, according to PensionBee.

### 94%

XPS's Scam Flag Index showed that 94 per cent of transfer cases showed at least one scam warning sign. While this represents a slight fall from the 97 per cent recorded in June, it is the

second consecutive month where the rate has been above 90 per cent.

### £1.8bn

The Universities Superannuation Scheme (USS) recorded a £1.8bn surplus as at 30 June 2022, representing a £15.9bn increase from the £14.1bn deficit recorded at the last valuation in March 2020. A monitoring report from the USS trustee revealed that scheme assets totalled £77.6bn as at 30 June 2022, up by £11.1bn since March 2020, whilst liabilities on a technical provisions basis had fallen by £4.8bn to £75.8bn.

Month in numbers



## VIEW FROM THE SPP: Supporting retirement decisions

**The DWP is looking for views on replicating the measures introduced**

**by the FCA following its Retirement Outcomes Review in its recent call for evidence.**

Whilst over half of UK adults have a workplace pension, almost a quarter don't know how much they contributed in the last year. A quarter expect to have enough in their pensions to fund their desired retirement. A majority of pre-retirees state that a lack of available funds or other shorter-term savings priorities

prevent them from saving more into their pension. More positively, consumers are relatively realistic about how long their pension savings will need to last in retirement, the average response being 19 years.

I always encourage consistency across the regulatory regimes and believe there is generally good merit in applying FCA's measures to the trust-based market. They aren't a silver bullet though. They help guard against some of the worst harms in retirement decision making, but we need a new framework for personalised guidance, and I believe trustees need clearer

permission to guide members to retirement solutions, guidance and advice services. More fundamentally, even with the current economic pressures and constraints, we need to move forward quickly with the expansion of the automatic enrolment regime and work towards larger pension pots being amassed.

SPP member, James Carter



# Preparing for pensions dashboards

## ➤ Matthew Swynnerton looks at some recent developments in relation to pensions dashboards

**J**uly saw a number of developments in relation to pensions dashboards including: the government's response to the DWP's January consultation which considered the requirements that will have to be met by trustees of occupational pension schemes; and updates to The Pensions Regulator's initial guidance on dashboards for trustees to reflect the response. This article looks at some of the issues for trustees to consider as they prepare for the introduction of pensions dashboards.

### Connection

The regulator notes that one of the action points for trustees is deciding how they will connect their scheme to dashboards, that is, whether they will develop a solution in-house, use a pensions administrator or use an integrated service provider.

The indicative regulations published with the DWP's consultation included a schedule setting out the proposed connection deadlines for large and medium schemes, with a scheme's deadline depending on the number of members, excluding pensioner members, as at the scheme year end date between 1 April 2020 and 31 March 2021. Whilst an updated version of the regulations was not published alongside the response to consultation, the response confirms that changes will be made to the deadlines for the first two staging cohorts. This means that the first deadline (which is for master trusts with 20,000 or more members) will be 31 August 2023 rather than 30 June 2023. The response also reports on a change to the deadline for public service pension schemes and a change of approach to ascertaining the deadline for hybrid schemes.

### Matching

Once the scheme is connected, trustees will need to be ready to complete matching in relation to 'find requests', that is, searching the scheme records to see if an individual has a pension with the scheme. Trustees will have discretion over which data elements they use to search their records for a match. The response notes that trustees will need to adhere both with their requirements to conduct matching and their duties under data protection legislation. It also sets out some of the points in the Information Commissioner's Office's response to the DWP's consultation, which include that data providers must consider the data minimisation principle when setting their own matching criteria.

Action points in the regulator's guidance relating to matching include that trustees should assess the accuracy and digital accessibility of the relevant data and, if required, put in place plans for improvements.

### View data

Trustees will also need to ensure that they can respond to 'view requests'. There will be three main categories of view data: (1) administrative data, which is information about the scheme and the administrator; (2) signpost data, which is the website addresses where certain information can be found, such as the scheme's Statement of Investment Principles; and (3) value data, with the relevant value data depending on the benefit type. The response to consultation reports that the regulations will be altered so that a simplified approach may be used in certain circumstances, for a limited period,

when calculating the value of deferred members' non-money purchase benefits.

Actions for trustees in the regulator's guidance include: understanding what data will need to be returned to members and how to calculate values (including how recent the calculations must be); assessing the scheme's data; and putting in place plans to improve data and make any changes required to the scheme's systems and processes.

### Future developments

As well as the regulations needing to be finalised, other upcoming developments include that: a consultation on the regulator's compliance and enforcement policy is expected in the autumn; and the Pensions Dashboards Programme's standards (which will provide further technical or operational detail about the requirements) will need to be finalised following a consultation that was published in July.

### Next steps

The regulator's guidance notes that there will be significant work involved in successfully connecting to dashboards and that it could take at least 12 to 18 months to prepare. It states that, regardless of their connection deadline, trustees are strongly advised to start preparing as soon as possible.

Trustees should therefore ensure that preparing for dashboards (including issues such as connection, scheme data and matching) is on their meeting agendas and scheme action plans.



➤ Written by DLA Piper pensions partner, Matthew Swynnerton

In association with





# In the driver's seat

✓ Jerry Gandhi, director at 20-20 Trustees and C A P Services, talks action heroes, architecture and a love for racing

## ➤ What's your employment history (including jobs outside of pensions)?

Administration in a regional life/pensions office with Sun Life was my non-planned entry to pensions. A rapid move to Noble Lowndes in Leeds assessing contracting-out viability pre-1978 entrenched pensions as my future career path.

This evolved into administration and then a move to Stenhouse before moving to an in-house role, initially with the Rover Group (BL as was) as pensions technical specialist, followed by a short time in Rowntree's in York.

My final 'permanent' role was with Inchcape, initially as UK pensions manager, then evolving to pensions and benefits manager and finally group pensions director, overseeing pensions for 60,000 people worldwide.

I started as a freelance 'trouble shooter' in 1999 and the rest is history!

## What's your favourite memory of working in the pensions sector?

Three have been so many great memories but most relate to when members have been helped along their pensions journey. One very satisfying call with a member started with an accusation of theft of his money (him having been auto-enrolled) which then evolved to him asking how to increase payments to maximise the employer cost.

## If you did not work in pensions, what sector do you think you would be in instead?

I would have loved to be an architect – watching *Grand Designs* is a must, as is travelling to view buildings and engineering

structures around the world. A favourite for me was seeing the Temples of Abu Simbel (Egypt) for both their original construction and subsequent relocation.

## What was your dream job as a child?

My original passion was science, mainly physics and electronics. This evolved into wanting to build dramatic buildings.

## What do you like to do in your spare time?

Reading a good book, watching a good movie or taking a drive out to the country are rare spare time options; most time now is spent with the family and especially the grandchildren – five and counting!



## Do you have any hidden skills or talents?

Fixing things is something I seem to be able to

do reasonably well. Even when visiting family, I am often asked to turn up with my toolkit – the grandkids have a saying that, "when anything breaks, Dada will fix it", (Dada being Indian for granddad!)

## Is there a particular sport/team that you follow?

Motor racing of all sorts is where my sporting passion lies – generally, however, I prefer to do the driving and occasionally do that in fast cars on racing circuits with other peoples' cars.

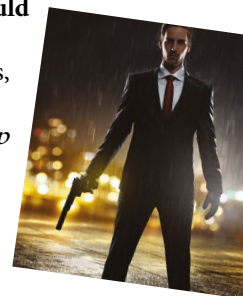


## If you had to choose one favourite book, which would you recommend people read?

The escapades of Dirk Pitt (Clive Cussler), Jack Reacher (Lee Child) and Alex Cross (James Patterson) are favourites – all offer an effective escape from the torrent of pensions bulletins and regulation updates we all get.

## And what film/boxset should people see?

Aligned to my book choices, action/hero stories are my favourite, with the latest *Top Gun* film a must see.



## Is there any particular music/band that you enjoy?

The heavy rock of Dire Straits, the pop rock/Irish music of The Corrs and the more modern songs from Ed Sheeran are on my playlist, which also includes songs from Bollywood films.

## Who would be your dream dinner party guests?

Tom Cruise, Blondie, and David Morgan, an ex-boss from my days at Rowntree who really gave me the greatest leg up in the industry by throwing me in at the deep end.

## Is there an inspirational quote/saying you particularly like?

"It is easier to ask for forgiveness than seek permission." Before taking some actions, this does put a lot of pressure on you to make sure if you do progress any activity, it's well thought out and justified.

✓ Written by Francesca Fabrizi





Royal London Asset Management equity investment director, Jonathan Price



# Global equities and transition investing

**✦ Pensions Age editor, Laura Blows, speaks to Royal London Asset Management equity investment director, Jonathan Price, about transitioning to sustainable investments within global equities**

The current inflationary environment has caused considerable change, particularly to the discount rate applied to the equity market, states Royal London Asset Management (RLAM) equity investment director, Jonathan Price, in the *Pensions Age* podcast, *Global equities and transition investing*.

Equities did have a strong month in July, due to “confidence that the Fed will engineer a softer landing, that rates will stabilise and maybe eventually come down”, he says.

This is essentially the bull case which, if realised, “makes equities today pretty good value”, Price states. The bear case is that rates have to go much further to control inflation “and ultimately, that prompts a very nasty recession, which is not a good outlook for the equity market”.

The volatility posed by these conflicting scenarios is what’s presenting an opportunity for stock-pickers, “simply because prices are fluctuating so widely”, he adds.

RLAM takes a differentiated approach for stock-picking, using a Life Cycle classification framework to apply its edge, which is “an assessment of the potential for what we call shareholder wealth creation at attractive valuations”. This Life Cycle framework “informs both the path of our company analysis and our portfolio construction discipline”.

“Our central belief is that we can make money at any stage of a company’s Life Cycle by picking better-performing

stocks over worse, picking winners over losers, but the drivers of what makes a winner or a loser at each stage are very different. What makes a good or bad compounder is very different to what makes a good or bad turnaround opportunity,” Price explains.

“When constructing portfolios we diversify them fully over each of those Life Cycle stages, in the same way that we would diversify over regions, sectors, and other macro factors. That ensures the risks and ultimately returns from our approach are stock-driven, rather than style or factor driven, and that’s a main reason we don’t shift the portfolio around on top-down outlooks.”

RLAM has recently launched its global equity sustainable transitions strategy. Having previously had full integrated ESG throughout the investment process, the company has spent an increasing amount of time in this area lately.

“Over the past few years, we’ve been capturing a lot more datasets, we’ve been engaging more specifically with management teams, we’ve more deeply incorporated insights into our wealth creation and valuation work, and hence the scoring of our company assessments all across the Life Cycle across all of our strategies. As part of our company specific assessments for shareholder wealth creation potential, we’ve got live quantitative scores of over 5,000 global stocks and further qualitative assessment rankings on 600 plus. A full assessment

and understanding of ESG risk and opportunity forms an integral part of this,” Price says.

“We were being increasingly asked by clients whether these insights could be extended to a proposition that was tasked with not just delivering performance but also delivering real, specific purpose.”

According to Price, what makes this strategy different to many is the focus on change, ie transition, rather than just the level of sustainability. “It’s really about putting money to work for that change, investing in companies that are either themselves transitioning or enabling others to do so,” he says.

Moving to a sustainable transition approach within global equity investing has some challenges for clients however, Price states. “For instance, sustainability is now an increasingly broad category, and clients will need to take a view not only on the potential for financial returns by investment processes, but also the type of non-financial purpose they want associated with that, such as supporting companies with existing green credentials or assisting businesses’ transition to improved environmental processes.”

Considering how the non-financial purpose might affect a financial performance profile by introducing such aspects as style risk, which is the case with many traditional sustainable strategies, might also be a challenge, he adds, along with regulation and reporting.

“Ultimately, clients will need to work with and increasingly engage with their managers to get comfortable with that non-financial objective.”

**✦ To listen to the podcast, please visit [www.pensionsage.com](http://www.pensionsage.com)**

**H**ow ready are UK pension schemes and providers to take on the immense task that is getting ready for the pensions dashboards? Moreover, what do they need to assist them in overcoming the challenges that lie between them and successful implementation?

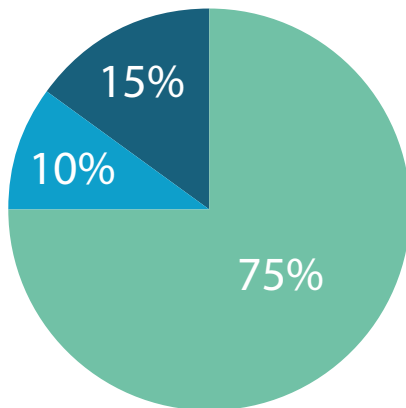
*Pensions Age*, in collaboration with Axway, asked these questions and more in a survey aimed at discovering what the industry really feels about the months that lie ahead, and what external help is needed.

**Positive or negative?**

It was no surprise to discover that 75% of respondents felt that pensions dashboards were broadly positive for the pensions industry.

What is your overall feeling about pensions dashboards? Do you consider the idea to be broadly positive or negative for the pensions industry?

- Positive
- Negative
- Neutral



**Some of the reasons why included:**

“The idea is fantastic for members.”  
 “People currently are not connected to their various pensions and most have no idea what the combined value will be at retirement age.”

# Pensions dashboards: How ready are we?

**▶ The UK pensions industry is on the cusp of one of the biggest advancements it has ever experienced. After years of deliberation and consultation, pensions dashboards are finally set to become a reality in 2023. But is the market ready?**

“Dashboards should encourage increased engagement in pensions.”

“Dashboards will help to improve member outcomes, either by helping people understand pensions in general better and/or reuniting people with long lost pensions.”

“Dashboards will drive improvements in trustee/administrator record-keeping and system capability.”

**Onboarding**

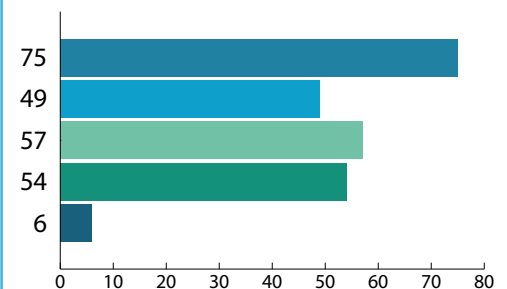
Worryingly, as many as 15% had taken no steps to prepare for onboarding and had no immediate plans to prepare; while 40% were at discussion stages with advisers. Others were at the stages of preparing their data and/or testing their technical capability to connect with dashboards.

**Managing data**

The biggest hurdle cited in preparing for dashboards was ‘managing data’, with ‘staff capability/constraints’, ‘preparation time’ and ‘connecting to technology’ also scoring high on respondents’ lists of worries.

What do you expect to be your biggest hurdle/s when preparing for dashboards?

- Managing data
- Connecting to technology
- Preparation time
- Staff capability/constraints
- No hurdles

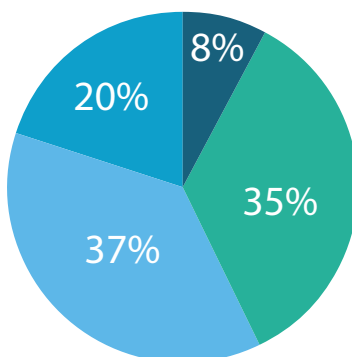


**Awareness**

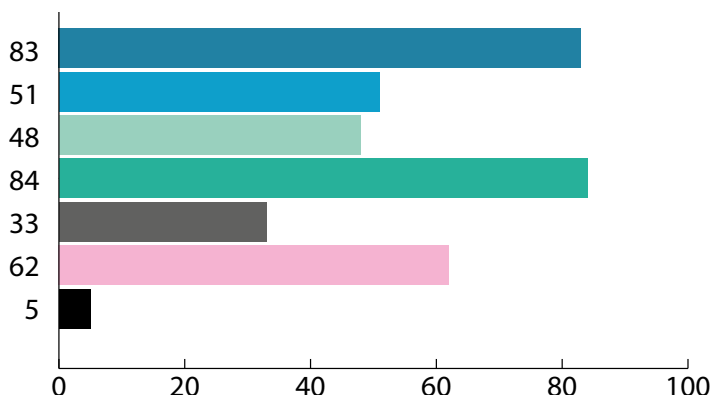
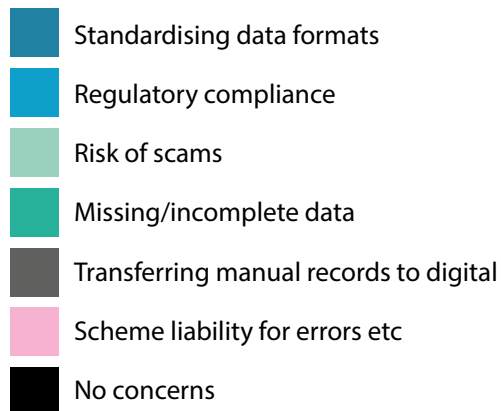
Encouragingly, only 8% were not aware at all of what is required for their scheme to connect to dashboards, although less reassuring was that only 20% were fully aware (rather than having just a broad idea) of the requirements.

How aware are you of what is required for your scheme/s to connect to dashboards?

- Not aware
- Aware of the need to prepare soon but not the details
- Broad idea of how to prepare
- Aware of the details



What are your main concerns with regards to supplying data to dashboards?



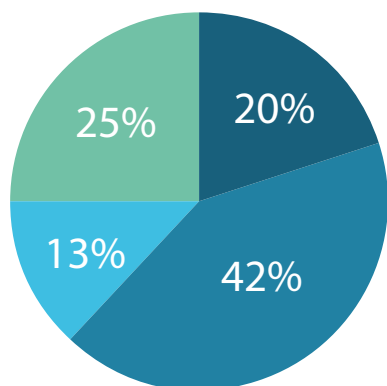
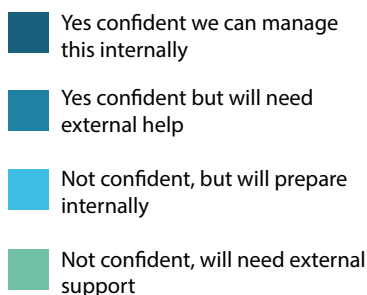
Supplying data

'Missing/incomplete data' and 'standardising data formats' were two of the biggest concerns raised with regards to supplying data to dashboards.

External technology support

While the majority of respondents felt confident about their technology being ready to connect to dashboards, most acknowledged they would need external help to do so.

How confident are you about your technology being ready to connect to dashboards?



Technology concerns

When asked what technology issues respondents were most concerned about, "security risks" and "costs" were raised by many; issues with "data matching" were also identified as a key concern; while other concerns included "getting it all working adequately to comply" and "interaction between existing systems/providers and the dashboard system".

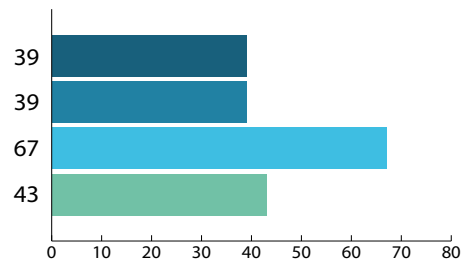
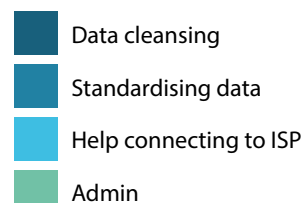
Benefiting from dashboards

As many as 57% plan to benefit from the dashboards by using them to increase member engagement. For example, by "building them in to member engagement/communication exercises", "reconnecting with gone away customers", and using this as "an opportunity to remind members about their pensions".

While 77% believe it is of high importance to provide a member digital experience (portal/mobile).

External providers

When asked what role external providers would most likely be used for, respondents answered the following:



UK pension dashboards are soon to be a reality – the industry has only made the first steps towards being ready due to the impact of legacy systems.

Axway enables those legacy and modern systems to connect to dashboards in a secure and compliant way, removing the technical debt of having to connect to each system separately, resulting in a standard and repeatable service, allowing providers to concentrate on bringing as much value to their customers and from the dashboards as possible.

Providers, ISPs and external suppliers can now connect legacy and modern IT systems, standardising digital services easily, without the need to replace existing technology or add new resource.

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# TODAY'S CHALLENGES, TOMORROW'S SOLUTIONS.

## For today's savers and future generations

✓ PLSA Annual Conference 2022  
ACC, Liverpool, 12-13 October



**T**he PLSA's Annual Conference is returning as an in-person face-to-face event for the first time in three years. It's the perfect place for delegates to join the policy drivers, disruptors, engagers and thought leaders to discuss all things pensions and see keynotes from pensions industry leaders as well as household names from the media.

This year's conference takes a look at how people can save enough for retirement while the cost of living spirals and how can tools like the Retirement Living Standards and pensions dashboards help savers with the decisions that matter.

It will also delve into schemes' latest investment priorities in an era of active stewardship and ESG and how can we ensure the regulatory environment works for all schemes, and enough flexibility for defined benefits.



After a welcome from PLSA chief executive, Julian Mund, we'll kick off with the launch of the PLSA's policy proposals for improving the UK pensions system so that more people will have a better income in retirement. After a decade of automatic enrolment has led to millions more saving, we need to take a phased approach to making sure those pensions offer resilience for the future.

Moving on from that, focus shifts to the pensions dashboard and with less than five months from the beginning of an 18-month period for all schemes to connect to the pensions dashboards ecosystem, our panel will give a detailed update on pensions dashboards and what pension funds must do to be ready for them.

The first day's afternoon will see discussions on a variety of issues, including what we can expect from the second part of The Pensions Regulator's DB Funding Code proposals that are due out this autumn, as well as looking at the climate crisis that has driven a financial services regulatory evolution in the past few years.

Nick Robinson also returns to the PLSA Annual Conference – having spoken at the last one held in person – to give us his take on what this most



turbulent of times means for the country.

The second of the two days will continue the influx of thought-provoking material with a session kicking off the day that asks the question, how can we make savings attractive? Here the panel will explore how the industry can make people interested in their pensions and why would people prioritise pensions when they are not interesting, not immediate and no help with today's cost of living?

We also have a keynote speech from Pensions Minister Guy Opperman, reflecting on his time in office and setting out where are we now, his priorities for tackling current challenges and his vision for the next two years.

And to close the event, esteemed journalist and broadcaster Clive Myrie – a familiar face to many of us this year through his reporting on the war in Ukraine – who will give his thoughts on increasing de-globalisation, ongoing international conflict and growing risks for a global recession.

It's a packed two-day schedule and one that is sure to leave everyone who attends with something to think about when they return to their workplaces. More than anything, we are looking

forward to seeing everyone back together again. This conference gives us the opportunity to strengthen existing relationships while also forging new ones.

We know PLSA members really value the opportunity to catch up with peers and network over the course of the event – in fact it was the top reason for attending our Investment Conference



earlier this year. So the conference not only provides access to the sessions and exhibitions but to a number of networking events, including the return of the conference dinner:

- Pre-conference drinks reception (funds only) on Tuesday 11 October (18:00-19:30)
- Drinks reception (open to all delegates) on Wednesday 12 October (18:10 -19:30)
- Conference dinner (open to all delegates) on Thursday 13 October (19:00-22:00)

Through our continued work as an industry, and sharing of new ideas and ways of working, we can try and help to ensure that the millions of people saving into workplace pensions can achieve a better income in retirement.

Be part of the debate at the biggest pensions conference of the year. For more information about the event – and how you can get tickets – visit [www.plsa.co.uk](http://www.plsa.co.uk).

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**PENSIONS AND  
LIFETIME SAVINGS  
ASSOCIATION**

# The case for gold in UK defined benefit schemes

With the rapid growth in funding ratios over the past year, an increasing number of UK defined benefit (DB) pension schemes have been contemplating their investment approach for the endgame – the point at which a plan moves from being underfunded to being fully funded or even having a surplus

Our analysis suggests that gold is an effective addition to a DB portfolio, helping a plan achieve its desired endgame by:

- contributing to long-term growth, and
- providing diversification that helps reduce funding level volatility.

## How have UK DB pension schemes fared recently?

To answer that question, we examine the evolution of the PPF 7800 index published by the Pension Protection Fund (PPF) since 2019. The index indicates the estimated funding position

for the DB pension schemes in the PPF's eligible universe and is based upon compensation paid by the PPF, which may be lower than full scheme benefits. At the end of 2019, the aggregate scheme funding ratio (the ratio of a scheme's total assets to liabilities) was 99.4 per cent.

In the first half of 2020 one immediate consequence of the Covid-19-induced crisis is that yields collapsed, along with equity markets. Together, these two developments were challenging for UK DB pensions [Chart 1]. With the present value of liabilities rising and asset values falling, aggregate DB schemes' deficits widened to lows of 92 per cent by

July 2020.

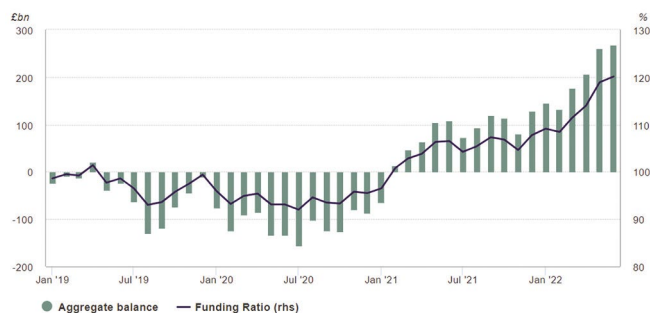
Since then, funding levels have steadily risen. Strong returns from growth assets were a key driver of the large improvements in scheme funding levels over 2021, with global equity markets reaching new highs following a strong economic recovery across the globe.

More recently, for a traditional DB plan, particularly a closed plan, a higher yield curve – commensurate with rising inflation – has provided a further welcome tailwind by decreasing the present value of liabilities.

At the end of June, the PPF 7800

## Chart 1: Covid-19 created significant challenges for UK DB pensions

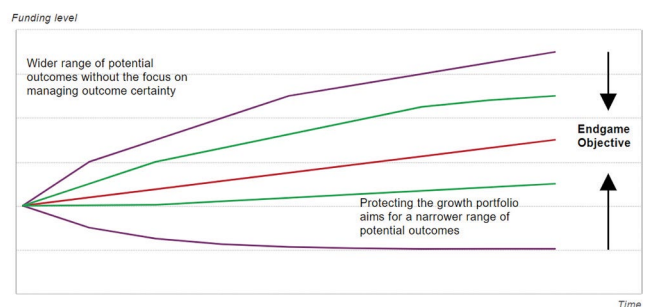
Historical aggregate funding position and funding ratio of schemes in the PPF universe\*



Sources: Pension Protection Fund, World Gold Council  
\*Data as of 30 June 2022. Funding position calculated as assets less 's179' liabilities

## Chart 2: Pension schemes should seek to increase the certainty of achieving their endgame

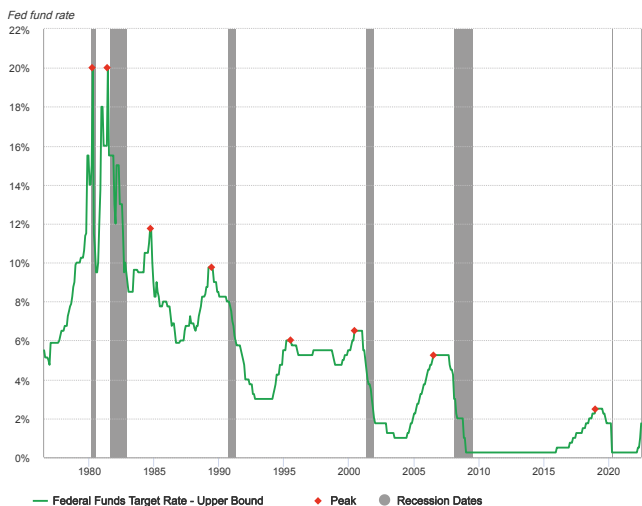
Hypothetical development of DB funding levels based on different strategies



Source: World Gold Council

### Chart 3: Fed funds rate hikes have usually resulted in a US recession

Six out of the past eight hikes have followed this pattern\*



Sources: Federal Reserve, NBER, World Gold Council

\*Data as of 30 June 2022.

index shows funding levels were at 120 per cent, levels not seen in a decade. And while disaggregating the data reveals that there is significant dispersion in the funding ratios among schemes, it is important for DB plans to seek to maintain the funding status gains made over the past year. This is especially so, as

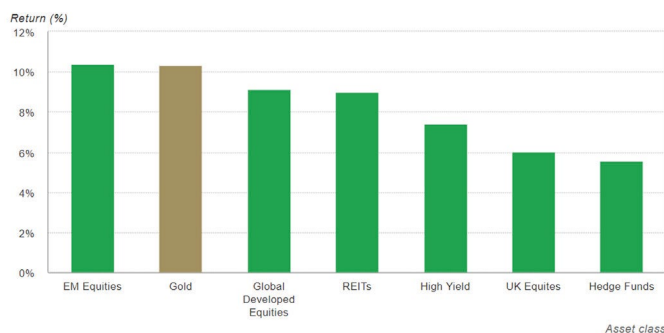
worries surrounding the global economic environment continue to mount and growth-oriented assets remain under pressure.

#### Managing outcome certainty

Taking into consideration recent improvements in the funding status of UK pension schemes and the breadth of macroeconomic challenges, we believe DB schemes should consider ways to protect their growth portfolio and narrow the range of potential outcomes. This would increase the likelihood of achieving their chosen endgame [Chart 2].

### Chart 4: Gold has outperformed most broad-based portfolio components over the past two decades

Annualised returns of key global growth-oriented assets in GBP\*

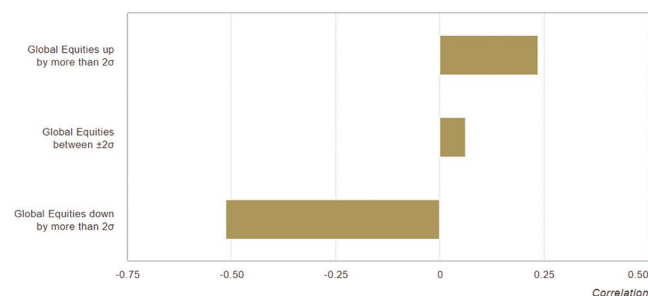


Sources: Bloomberg, ICE Benchmark Administration, World Gold Council

\*Data from June 2002 to June 2022.

### Chart 5: Gold becomes more negatively correlated with equities in extreme market selloffs

Correlation of global equities vs. gold in various market environments\*



Sources: Bloomberg, World Gold Council

\*Based on weekly GBP returns of the FTSE Global Developed Index and LBMA Gold Price using data between 31 December 1993 and 30 June 2022.

be achieved within a specific timeframe to cover all liabilities is important for DB schemes. But achieving that outcome with any level of certainty can be difficult. One of the most important questions for investors today is whether the higher interest rates that are arriving hard and fast can indeed bring about a “soft landing” for the global economy. Past experience suggests that this will be difficult; tightening has often preceded downturns.

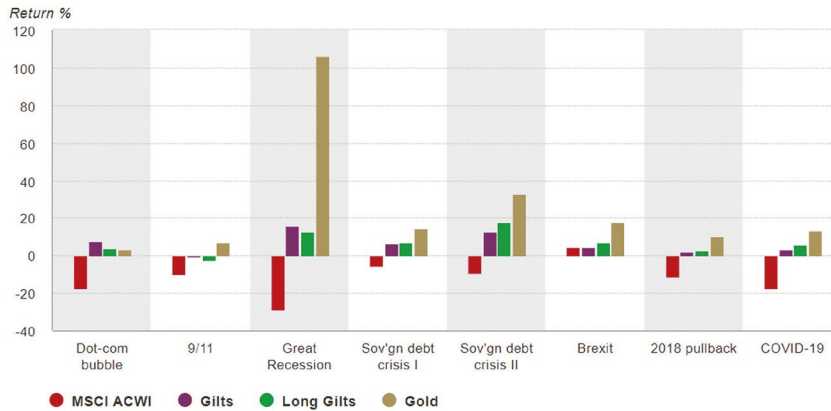
Since 1976, for example, the Fed has only twice succeeded in hiking rates without subsequently pushing the US economy into a recession in the following couple of years – in 1983 and 1994 [Chart 3]. Only time will tell whether the Fed’s latest hiking cycle will succeed in combating inflation without a recession – or if a recession will be needed to kill inflation.

#### What makes gold a strategic asset for DB pension funds?

Our analysis shows gold is a clear complement to equities and broad-based growth portfolios. A store of wealth

## Chart 6: Gold provides downside protection

Global equities, UK Gilts and gold returns (in GBP) during periods of systemic risk\*



Sources: Bloomberg, ICE Benchmark Administration, World Gold Council;  
Disclaimer

\*Downturn periods shown are largest pullbacks in the MSCI ACWI since 1 January 2000. Dates used: Dot-com: 3/2000–3/2001; September 11: 9/2001; Great Recession: 10/2007–2/2009; Sovereign debt crisis I: 1/2010–6/2010; Sovereign debt crisis II: 2/2011–10/2011; 2016 Brexit Referendum: 6/23/2016–6/27/2016; Q4 2018 pullback: 10/2018–12/2018; COVID-19: 2/2020–3/31/2020.

and a hedge against systemic risk, gold has historically improved portfolios' risk-adjusted returns, delivered positive returns, and provided liquidity to meet liabilities in times of market stress.

Investors have long considered gold a beneficial asset during periods of uncertainty. Yet, historically, gold generated long-term positive returns in both good and bad economic times,

outperforming many other major asset classes over the past 20 years [Chart 4].

The diverse sources of demand give gold a particular resilience and the potential to deliver solid returns in various market conditions. Gold is, on the one hand, often used as an investment to protect and enhance wealth over the long term, but on the other hand it is also a consumer good, via

jewellery and technology demand.

Furthermore, while effective diversifiers are sometimes hard to find, with many assets becoming increasingly correlated as market uncertainty rises, gold is different in that its negative correlation to equities and other risk assets increases as these assets sell off [Chart 5].

With few exceptions, gold has been particularly effective during times of systemic risk, delivering positive returns and reducing overall portfolio losses [Chart 6].

## A DB portfolio including gold can help reduce funding ratio uncertainty

Let us now illustrate how an allocation to gold in a DB portfolio could help reduce funding ratio uncertainty and increase the chances of achieving a pension scheme's endgame.

Table 1 outlines two hypothetical schemes. We assume each scheme has a target time horizon of 10 years to become fully funded and has the same initial funding level (85 per cent). We also assume that the trustees of these schemes are comfortable employing a leveraged liability-driven investment (LDI) strategy to stabilise their funding ratios and have a target hedge ratio equal to the initial funding ratio.

For modelling purposes, we also assume both schemes have a required return of 4.3 per cent with an asset mix of 30 per cent return-seeking / 35 per cent credit / 35 per cent liability-hedging and a level of leverage of 3 in the matching portfolio. The first scheme has a typical return-seeking asset allocation, i.e. global equities. The second scheme holds a diversified mix of equities and gold.

At first glance schemes 1 and 2 may look attractive, with both strategies closing their deficit [Chart 7]. But the goal of our hypothetical plan is not only to meet the funding ratio objective but also to limit the risk of falling back into deficit. Our analysis shows that

**Table 1: Hypothetical schemes with the same time horizon but different growth portfolios**

Key characteristics and strategic asset allocation of two hypothetical schemes\*

	Funding Ratio (%)	Target LDI Hedge Ratio (%)	LDI Portfolio Allocation (%)	LDI Leverage	Equity Allocation (%)	Gold Allocation (%)	Credit Allocation (%)	Required Return (%)
Scheme 1	85	85	35	3	30	0	35	4.3
Scheme 2	85	85	35	3	25	5	35	4.3

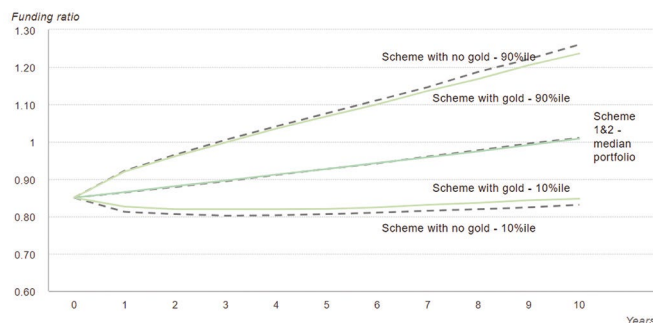
Source: Bloomberg, World Gold Council

\*Data as of 30 June 2022.



### Chart 7: The uncertainty of reaching the chosen endgame could be reduced with an allocation to gold

Paths taken by two hypothetical schemes to become fully funded\*



Sources: Portfolio Visualizer, State Street Global Advisors, World Gold Council

\*As of 30 June 2022. Note: Monte Carlo simulation results for 5,000 portfolios using long-term asset class forecasts and historical asset correlations and volatility. [See appendix for details].

the strategy with gold exhibits less dispersion of future funding levels, increasing the probability of reaching full funding within the 10-year period.

Moreover, funding level volatility can have a material impact on pension schemes. We witnessed this during the market turmoil of March 2020. Next, we compare how our two hypothetical schemes would have fared over that period – assuming no leverage for simplicity and an initial funding ratio of 100 per cent.

The hypothetical scheme with a gold allocation did see a reduction in the funding ratio volatility, reaching a level of 0.93 vs. 0.91 for a scheme without gold [Chart 8]. The benefits of this scheme's shallower drawdown are twofold:

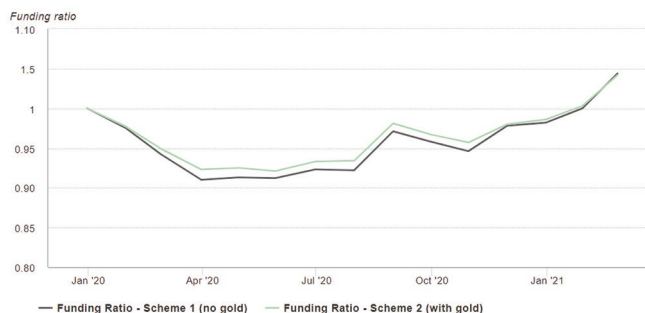
assets are not required to work as hard to recover, and the management of a sponsoring employer's balance-sheet risk is also helped.

#### Conclusion

Following significant funding level volatility over the past two years, there is a sharper focus on risk management among DB schemes. The potential higher returns from an equity exposure will continue to be important, particularly for schemes looking to reduce the time to their long-term funding target, close any funding gaps, and provide a buffer against longevity risk. Nevertheless, schemes focused on maximising outcome certainty should have a preference for an asset mix that provides a higher level of

### Chart 8: An allocation to gold could have reduced the funding ratio volatility during the COVID-19-induced crisis

Funding ratio of two hypothetical schemes with and without gold\*



Sources: Bloomberg, World Gold Council; Disclaimer  
\*Data as of 30 June 2022.

certainty of achieving those returns over a specified timeframe.

As demonstrated in our hypothetical case study, an allocation to gold can help mitigate the key risk faced by DB schemes – namely, uncertainty of being able to pay pension benefits – by providing long-term growth potential and diversification that helps reduce funding level volatility.

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#### Appendix

##### Asset class forecasts:

Equities & UK corporate bonds: we have used State Street Global Advisors' Q3 long-term asset class forecasts. These forecasts are forward-looking estimates of total return, generated through a combined assessment of current valuation measures, economic growth, inflation prospects, ESG considerations, yield conditions, as well as historical price patterns

The matching portfolio is modelled using the yield to maturity of 20-year nominal UK government bonds with cost of leverage modelled using SSGA Q3 2022 long-term asset class forecasts for UK cash

Gold is modelled using Qaurum. The World Gold Council has developed a framework to better understand gold valuation. Our Gold Valuation Framework powers our web-based tool, Qaurum, which allows users to assess the potential performance of gold under customisable hypothetical macroeconomic scenarios. For the analysis, we have used an expected return of 3.5 per cent, which is the average long-term implied gold return across the five pre-defined macroeconomic scenarios provided by Oxford Economics and published 7 July 2022.



**TO INVEST RESPONSIBLY,  
YOU HAVE TO LOOK BELOW  
THE SURFACE.**

## Our Active 360° Approach

We actively engage with a company's management to understand how they think and to analyze the financial and ESG factors that could impact their business over time. At MFS®, that's how we evaluate sustainability and make responsible investment decisions.

See how sustainable investing works at MFS. Go to [mfs.com/active360](https://mfs.com/active360).



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**PENSIONS**Age

► **Is natural capital the next area of focus for trustees?**  
*Vishal Hindocha explains now is the right time for pension schemes to consider natural capital within its ESG considerations p44*

► **Investing the natural way: Abigail Williams explores how pension funds are increasing their investments to natural capital p46**

# Natural capital focus:

## Investing in nature's resources



**MFS Investment Management**  
 global head of sustainability  
 strategy, Vishal Hindocha



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# Is natural capital the next area of focus for trustees?

## ➤ Vishal Hindocha explains now is the right time for pension schemes to consider natural capital within its ESG considerations

natural capital? Some schemes are breaking new ground on this topic but for the majority, it seems the discussion has not even started.

### Natural capital – the next big focus?

We believe natural capital could be the next ESG related point of focus for pension schemes. Schemes who thoughtfully engage on it now potentially stand to benefit by understanding the risks and opportunities before the wider market can do so. But what is it and how can trustees assess its impact?

Natural capital is the world's stock of natural assets, including soil, air, water, grasslands, forests, wetlands, rocks, minerals and all living things. Collectively, these provide vital ecosystem services such as water for agriculture, natural filtration for clean drinking water, crop pollination, carbon sequestration and flood or storm protection. In monetary terms, these services are valued at USD 44 trillion a year and form the basis of half the world's GDP.<sup>3</sup>

### Why focus on natural capital now?

While natural capital is worth considering in its own right, its link to climate change makes it all the more important right now. Meeting the goals of the Paris Agreement will require halting and indeed reversing nature loss. Land use and forestry changes amount to just under a quarter of human-caused greenhouse gas emissions.<sup>4</sup> Forests and oceans absorb vast amounts of carbon dioxide, but this capability is diminishing

due to acidification, biodiversity loss and plastic pollution. As we approach various tipping points, the impact of this impairment of natural capital becomes more important.

The growing appreciation of natural capital could significantly impact the economics of many companies and, as investors, it is our job to price future risks and opportunities then turn those into an investment thesis today. The following framework shows how we are beginning to integrate natural capital into our fundamental analysis.

### How to assess the impact of natural capital?

Our investment team formulated a three-step framework to analyse the risks and opportunities for companies in relation to natural capital.

The team's initial focus has been the food industry, given its high dependency on natural capital compared to other industries. The food industry also has the largest impact on natural resources, driven primarily by intensive and industrialised processes. Moves towards more sustainable food production are also likely to impact profit margins. If no such transition is made, the food sector's reliance on natural capital and ecosystem services makes it particularly vulnerable to deteriorating value derived from nature. This has implications for food sector companies and investors alike.

*Step 1 - Identify high risk commodities in supply chains and understand their impacts on nature*

The impact of a commodity on nature

When it comes to the environment, climate change and carbon emissions have been the main focus for investors, regulators, governments and the general public in the UK. However, last year the UK government, in its response to the Dasgupta review on the Economics of Biodiversity, said it will bring in a target on species abundance for 2030 to halt the decline of nature.<sup>1</sup> It plans to “leverage private sector finance to enhance our natural environment, encouraging private sector-led, market-based solutions”. The areas of interests are “natural capital markets for carbon, water quality, biodiversity, natural flood alleviation and other ecosystem services”. UK pension funds must be among the sources of capital the government is looking to in order to achieve this objective. The Pensions Minister, Guy Opperman, said in March he would reach out to pension funds about deforestation issues, stating that the UK is “putting forests front and centre of our global response to climate change”.<sup>2</sup> But are trustees ready to discuss

depends on how much of the commodity is produced and demanded as well as the range and extent of negative outcomes that it creates.

We began by mapping the size of material natural capital impacts of food groups, such as beef, rice, corn and palm oil, against the type of impact (soil degradation, pollution, water scarcity/salinisation, biodiversity loss and emissions from land use).

We then identify companies we invest in with significant exposure directly to the biggest impacts and those whose supply chain they appear in.

*Step 2 - Map the supply chain, local consumption and local resource stress*

Natural capital impacts are often highly localised and driven by a variety of geographic factors including scarcity of resources, biodiversity, government policies and farming practices. This makes it hard to assess the impacts of global supply chains.

In addition to location, how much of a commodity is locally consumed and how resource intensive it is to produce also impacts its natural capital cost. For example, although it takes much more water to produce meat than to grow wheat, the water stress of wheat in India is much higher than in the US because wheat is an important part of the Indian diet and because of the severe water stress in the regions where Indian wheat is grown. Global supply chains therefore require us to map resource use, local scarcity and contribution to local diet.

We then map company-specific exposure before moving to the final step.

*Step 3 - Assess areas to focus our stewardship efforts (high risk and high*

*impact commodities)*

The framework can guide us on where to focus our further analysis and engagement efforts. For example, higher water scores might be more meaningful than lower forestry scores because water stress is more material risk than deforestation for a particular company. This analysis may prompt us to ask companies questions such as:

- How do you evaluate and measure the natural capital risks in your supply chain, in particular relating to rice and sugar?
- Are the products or services you offer profitable if natural capital risks are priced in?
- Do you financially incentivise suppliers to change their natural capital and biodiversity practices? Do you financially incentivise your own management to do so?

Other ESG factors outside the scope of this framework will also influence our engagement efforts too. We track the progress made by companies and our ongoing engagements in a dedicated engagement tool.

### **Next steps for pension fund trustees? E of ESG should not only be about climate change**

We believe trustees should consider discussing natural capital with their investment managers. We appreciate trustees have a lot on their plate in terms of regulatory requirements and many managers themselves are at an early stage of the learning curve.

We think natural capital, along with the ecosystem services it provides, poses a material systemic risk but also presents

opportunities in several key sectors. Assessing these risks is harder than assessing those associated with climate change but we are encouraged to see more conversations starting to happen. Factors such as supply chain location, local consumption and local resource stress might all be considered. While the data are still largely unavailable or remain poor-quality, organisations such as the Science Based Targets for Nature (SBTN) and the Taskforce on Nature-related Financial Disclosures (TNFD) are beginning to gather momentum, providing more structured frameworks for assessing natural capital. Climate has been pushed onto trustee agendas in part by the government's requirements to report in line with the Task Force on Climate-related Financial Disclosures. Will the TNFD be built into reporting requirements in the future? TNFD is still at an early stage of development but it's certainly doing great work.

We believe engaging on natural capital presents an opportunity for pension funds. Investors who thoughtfully engage will potentially benefit by more accurately pricing relevant opportunities and risks before the wider market is able to do so. We hope to be able to share with you more insights into this topic as we continue along this journey.



► **Written by MFS Investment Management global head of sustainability strategy, Vishal Hindocha**

In association with



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<sup>1</sup> HM Treasury The Economics of Biodiversity: The Dasgupta Review – Government Response, 2021

<sup>2</sup> Guy Opperman How your pensions can help tackle climate change, 2022

<sup>3</sup> WEF New Nature Economy Report, 2020.

<sup>4</sup> UNFCCC Introduction to Land Use.

### Summary

- Natural capital can be thought of as an investment opportunity in biodiversity.
- It is attracting growing interest because of the huge impact climate change is having on biodiversity.
- Pension funds investing in natural capital should look closely at the assets they are investing in to better understand how financial returns will be delivered alongside environmental impacts.
- Observers believe there must be a massive increase in natural capital investment for the transition to net zero to happen.



## Investing the natural way

### Abigail Williams explores how pension funds are increasing their investments to natural capital

In recent years, a growing number of pension funds have begun to invest in natural capital assets. So, what exactly is meant by the term ‘natural capital’? Why is there currently an increased focus on these assets as an investment opportunity for pension funds? And how best can pension funds invest in these opportunities?

#### Biodiversity investment

According to Pensions for Purpose’s director, Karen Shackleton, natural capital can be thought of as “an investment opportunity in biodiversity” that is attracting growing interest because climate change is “having a massive impact on biodiversity”.

“The two are inextricably linked – investing in natural capital investments is also a way of capturing carbon, so many pension funds see this as linked to their climate action investment strategy,” she says.

Elsewhere, MFS Investment Management’ senior managing director and global head of sustainability strategy, Vishal Hindocha, explains that the term natural capital refers to the elements of the natural environment that provide valuable goods and services to society, including soil, air, water, grasslands, forests, wetlands, rocks, minerals, and all living things.

In this analysis, the value of natural capital includes ecosystem services such as water for agriculture, natural filtration for clean drinking water, crop pollination, carbon sequestration and flood or storm protection.

“It is vital for economic activity. The World Economic Forum has estimated that \$44 trillion of economic value depends on natural resources, which is the equivalent to more than half of the global GDP,” says Hindocha.

While natural capital is “worth considering in its own right,” Hindocha

also stresses that its link to climate change makes it all the more important right now – and that sustainable investing continues to increase in importance for scheme sponsors.

“Several large UK schemes, representing over £400 billion of assets, have committed to cut portfolio emissions in half by 2030 and bring them to net zero by 2050. While the list includes some of the preeminent funds in the UK, the pensions industry has a long way to go to meet the goals set out by the 2015 Paris Agreement,” he says.

“Meeting the goals of the Paris Agreement will require halting and indeed reversing nature loss. Land use and forestry changes amount to just under a quarter of human-caused greenhouse gas emissions. Forests and oceans absorb vast amounts of carbon dioxide, but this is diminishing due to acidification, biodiversity loss and plastic pollution. As we approach various tipping points, the impact of this impairment of natural capital becomes more important,” Hindocha adds.

#### Investment strategies

In Shackleton’s view, one of the most important steps for a pension fund investing in natural capital is to look closely at the assets in which they are investing, so that they understand exactly how the financial return will be delivered alongside the environmental impact.

“A number of funds have historically invested in agriculture, and also in timberland, but I think most of the recent natural capital funds that have been launched are still in their fundraising phase – this is still quite a new area. South Yorkshire [*pension fund*], Flintshire [*pension fund*] and Environment Agency Pension Fund are among the leaders in impact investment,” she says.

In terms of strategy, Hindocha believes trustees should consider discussing natural capital with their investment managers and consider making a specific allocation to projects

that preserve and protect natural habitats and incorporate the investment impact on natural capital while assessing risks and allocating assets.

“Engagement with companies would also help them to understand the impact and reliance on natural capital, as well as create a dialogue that would encourage incorporating such factors into a shift towards more sustainable approach,” he says.

Although he thinks natural capital, along with the ecosystem services it provides, poses a “material systemic risk”, Hindocha also believes it presents opportunities in several key sectors. Moreover, although assessing these risks is “harder than assessing those associated with climate change”, he is encouraged to see more conversations starting to happen.

“Factors such as supply chain location, local consumption and local resource stress might all be considered. While the data are still largely unavailable or remain poor-quality, organisations such as the Science Based Targets for Nature (SBTN) and the Taskforce on Nature-related Financial Disclosures (TNFD) are beginning to gather momentum, providing more structured frameworks for assessing natural capital,” Hindocha says.

He observes that pension funds can gain access to natural capital opportunities by investing directly in projects supporting activities such as reforestation, coastal restoration, marine and wildlife support, and sustainable agriculture.

### Nature positive solutions

Elsewhere, WTW global head of research, Luba Nikulina, says: “Nature-positive solutions present an increasingly interesting opportunity for pension funds. The opportunity set has been narrow, which is a barrier, but it’s increasing rapidly which presents an opportunity. There has been a clearly increasing level of attention to this

area, both from asset owners and asset managers.

“Existing opportunities where pension funds already have some exposure include sustainable agriculture and reforestation. An area that is gradually gaining prominence is investing in nature-based carbon projects that underpin high quality carbon credits. For example, the regeneration of mangroves, wetland and peatland.”

As with other impact investments, Impact Investing Institute deputy chair, Jamie Broderick, observes there are an increasing range of opportunities to invest in natural capital, both in the UK and internationally, across asset classes, sectors and geographies.

“UK pension funds, including Local Government Pension Scheme funds, currently invest in timberland and forestry. Lyme Timber is the best example, as its credentials are good, and it has been used by Snowball and the Environment Agency, and it is increasingly looking for investment strategies focused on delivering social and environmental benefits,” he says.

“Forestry offers pension funds a combination of income and growth returns that generally fit well with pension fund objectives, as well as diversification,” Broderick adds.

### Huge increase required

Looking ahead, Cushon strategic adviser, Julius Pursaill, highlights the “exciting innovation” of blue capital, which includes a number of ocean-based investment strategies.

“This might include sea grass – a source of food, fertiliser and a highly efficient means of carbon sequestration – and mangroves, similarly effective at sequestering carbon and excellent as a mechanism for coastal defence, a benefit it may be possible to monetise,” he says.

Moving forward, Shackleton expects “better and more standardised reporting of the impact actually being delivered”, as well as closer scrutiny of how funds

are investing and “whether or not they are genuinely delivering to the twin goals of impact investments”, coupled with a blending of environmental and social impact.

“So, a fund investing in biodiversity will also try to impact the local community positively. For example, by developing a nature reserve or a play area within the site,” she says.

Given the growing importance of sustainable investing, Hindocha predicts that governments are likely to establish regulatory frameworks that would serve as a critical element influencing where capital is deployed.

“Such incentives and mechanisms would make the risk-return profile of green investments more appealing to investors – including pension funds. Introduction of investment grade policy may also play a role. Other ways that would support and encourage investing in natural capital assets might be introduced such as modification of the energy markets rules or tax rules, creation of carbon markets or promotion of certain equity or debt investment,” he says.

Ultimately, the Impact Investing Institute chief executive, Sarah Gordon, believes that there needs to be a huge increase in investment in natural capital for the transition to net zero to happen.

“At the moment, this transition is not only not happening, but we are going fast in the wrong direction. Private capital needs to be mobilised, at scale, to invest in the transition, and natural capital investments are a key part of this strategy. Everyone, from individual investors and savers, to public and private asset owners and managers, to governments and multilateral agencies, needs to be engaged in this challenge,” she states.

Written by Abigail Williams, a freelance journalist

In association with





# Crunch time

☞ **Sophie Smith takes a closer look at the latest pensions dashboard updates and the steps that pension scheme trustees should be taking to ensure they are prepared**

“Pensions dashboards are increasingly becoming a reality, and huge progress has been made in the past 12 months,” says Pensions Dashboards Programme (PDP) principal, Chris Curry. “This includes the legislative framework that Department for Work and Pensions (DWP) and Financial Conduct Authority (FCA) are delivering, the work that The Pensions Regulator (TPR) is doing to help trustees get ready for compliance, and the delivery of the digital architecture and standards that PDP is delivering.”

Indeed, the DWP recently confirmed further details on pension dashboard regulations, deferring the deadlines for the first two staging cohorts by two months, although this is not expected to have a significant impact on timing, with the draft regulations to be laid before parliament in autumn.

PDP is also on track to publish the final dashboards standards documents in winter, following its recent consultation

on the draft standards, with a formal consultation on the design standards also expected to follow in autumn, to coincide with the FCA’s consultation on draft dashboards rules.

## Getting the timing right

However, there are still areas of contention, as the DWP’s recent consultation on the Pensions Dashboards Available Point (DAP) has come under fire from industry experts amid concerns that the notice period could be too short for the industry, yet too long for savers.

In light of these concerns, Society of Pension Professionals (SPP) former president, Paul McGlone, argues that the DAP shouldn’t come as a surprise to the industry, but that a likely date should be shared publicly around 12-18 months in advance, so the industry can plan.

“While we understand this is the intention, that hasn’t been formally confirmed by anyone involved in the decision,” he says. “The formal notice then still needs longer than three months

## ☞ Summary

- Pensions dashboards have seen huge progress in the past 12 months, although there are uncertainties still to be finalised, particularly around the Dashboards Available Point.
- Despite the uncertainty, pension scheme trustees should be taking action now to ensure that they are prepared ahead of the relevant staging deadlines.

so final arrangements can be made, for example bringing systems online in time, and recruiting and training staff. Different organisations have suggested different periods, but six months seems to be a common request.”

These concerns are echoed by Pensions Administration Standards Association (Pasa) Dashboards Working Group member, Andrew Lowe, who points out that there are potential practical and legal constraints around widescale testing of the UK dashboards ecosystem that may limit what can be achieved in advance of the DAP.

He continues: “As an industry, we need clearer information on the above to help shape the way in which schemes, trustees and administrators can prepare for DAP and support savers once dashboards are here. If this information is accessible to the pensions industry alongside indicative information around expected timelines then the gap between announcing an upcoming launch of dashboards and the launch itself can be minimised. The issue is therefore how insight into dashboard experience is gathered and shared between now and DAP/other launch protocol.”

Industry experts have also suggested that the bigger challenge may be the idea of a ‘big bang’ switch on. Pensions Management Institute (PMI) vice president, Robert Wakefield, says that a more phased approach is “the best we can achieve with the current resources, considering schemes have other important projects running alongside



such as GMP equalisation (GMPE) and de-risking work”.

### Road block ahead

Despite the progress made over the past year, many industry experts are also reluctant to suggest that pensions dashboards are on the last stretch.

“Different organisations are at very different stages in the dashboards project,” says McGlone, noting that some, such as the development of qualifying dashboards and integrated service providers (ISP), are progressing well, but are certainly not in the final stages, while others, such as developments for individual schemes, are only just starting.

And Lowe warns that there is a risk that the capacity to catch up may not

exist, and “much can happen” between now and the DAP, which is “probably a minimum of 24 months away”.

He also emphasises that the DAP is the “beginning of dashboards and not the finish line”, as savers will be given pension insights they’ve never had before.

“What information this exposes and what consumers want to do next has the potential to disrupt the industry in a way which may potentially be bigger than auto-enrolment or pension freedoms,” he continues. “Dashboards will need to evolve to meet these needs and this will have wider impacts too.”

Premier head of administration, Girish Menezes, says legislation also remains a “key risk”, as this could be delayed due to the current *[at time*

**“The building and initial testing of the digital dashboards architecture is already well underway. My message to the trustees and managers of pension schemes of all types and sizes is simple: Get data ready”**

*of writing]* Conservative leadership elections.

However, Curry reassures the industry that while there will always be hurdles, “given what we know today, PDP are confident that we will be ready to onboard schemes and providers next year”.

“We know that many of those pension schemes and providers, administrators and software providers who have staging deadlines next year are working hard to make sure that they are ready too,” he continues.

And schemes are right to prepare, as Pensions Minister *[at time of writing]*, Guy Opperman, also stresses the need for the industry to take action now, stating: “For many people, a pension is the most significant financial investment they will make in their life. That is why the introduction of pensions dashboards is so important.

“Clear pensions information at the touch of a button, including on the state pension, will ensure better informed, more engaged savers and help people to plan effectively for retirement, as well as to find lost and forgotten pension pots.

“The building and initial testing of the digital dashboards architecture is already well underway. My message to the trustees and managers of pension schemes of all types and sizes is simple: get data ready.”

**Written by Sophie Smith**

### What now?

Despite the uncertainty still surrounding the final standards, Premier head of administration, Girish Menezes, says that “there is no excuse not to start preparing scheme data to meet dashboard standards”.

“In fact, given the pressure on trustees and administration teams with GMP equalisation, buy-ins and buyouts, it is important for trustees to embed dashboard preparation within their broader data improvement plans, to ensure that the project is efficient and cost effective,” he explains.

Menezes says that the focus should be on DB deferred members, accurate pensions calculated at date of deferment and the ability to roll this forward annually on a scheme-specific basis. “All of this will put the trustees in a better position to enable automation of calculations, a better member experience, less risk of errors and shorter preparation time for de-risking.”

This sentiment is echoed by Pensions Administration Standards Association (Pasa) Dashboards Working Group member, Andrew Lowe, who suggests that there are lots of areas trustees can address based on PDP’s “detailed” draft versions of the standards, such as matching and reporting protocols, and the quality of scheme data.

In particular, Lowe says trustees should clarify how their administrator will exchange data with the Centralised Dashboard Architecture (CDA)/dashboards and ensure they or their chosen ISP can meet the code of connection, technical and reporting standards as written.

In addition to this, he encourages schemes to identify what data they require to ‘match’ with the ‘find’ data provided by the pension finder service before returning ‘view’ data to the dashboards.

And some schemes are already taking action to ensure they are prepared, as PMI advisory council member and Tesco Pension Manager, Eve Keith, confirms that the pension scheme has already taken action around matching criteria and selecting an ISP.

“As part of that process we had to balance the benefits of using a provider we were already familiar with the ability to segregate the ISP offering from the main system provision in the future if needed,” she explains.



# Govt under pressure to reform NHS Pension Scheme

**Jack Gray investigates the ongoing crisis affecting the NHS as senior staff continue to retire early or scale back their working hours due to pension tax charges**

**T**he government is facing continued pressure to address issues in the NHS Pension Scheme and pension tax system that is reportedly leading to high numbers of senior staff retiring early to avoid pension tax bills.

Many high earners in the NHS are choosing not to work additional hours or

are retiring early due to fears of incurring pension tax charges for exceeding the annual allowance (AA). Currently, the standard AA is £40,000.

However, due to the tapered annual allowance, pension savers can see their AA reduced to as little as £4,000.

In the NHS Pension Scheme, pension growth, including employer

contributions, is added to threshold income to get adjusted income.

If a staff member has a threshold income of above £200,000 and their adjusted income is below £240,000, they will be subject to the standard allowance.

However, if their threshold income is above £200,000 and their adjusted income is above £240,000, then their AA will be reduced.

For each £2 that their adjusted income exceeds £240,000, their AA threshold will be reduced by £1, up to a reduction of £36,000.

Therefore, if an NHS staff member's adjusted income exceeds £312,000, then they will have a reduced AA of £4,000 and be likely to incur pension tax charges for exceeding their AA.

A joint survey conducted by the Royal College of Physicians, the Royal College of Physicians of Edinburgh and the Royal College of Physicians and Surgeons of Glasgow in 2019 found that 45 per cent of doctors had decided to

retire earlier than planned, with 86 per cent of those citing pension taxations as their reason why.

It also found that in the previous two years, 38 per cent of clinicians aged 50-65 said they had an AA tax charge due to exceeding their pension threshold.

In early 2020, NHS Providers warned that the issue could see an “exodus of NHS leaders”, with 44 per cent of trust leaders considering leaving the NHS due to the pensions crisis.

According to analysis conducted by Quilter in April 2022, at least 34 per cent of all people who exceeded the AA in 2019/20 were members of the NHS Pension Scheme. Furthermore, NHS Business Services Authority (BSA) data showed that 18,631 GPs had not received their 2019/20 AA statement at the time the statistics Quilter analysed were published, with the firm warning that the final proportion of NHS members exceeding the AA could be higher.

A freedom of information request to the NHS BSA revealed that of the 15,583 NHS pension scheme members that exceeded the standard AA in 2019/20, 10,766 did not use the scheme pays facility.

Scheme pays allows those who have an AA charge to ask NHS Pensions to pay some or all of that charge in return for an appropriate reduction in NHS benefits.

In March 2020, the government increased the earnings threshold for the tapered AA from £110,000 to £200,000. However, in July 2022, the Health and Social Care Committee stated that whilst those in government had suggested that changes to the taper had solved the issue, this was “evidently not the case”, with sources warning the committee that the NHS is “haemorrhaging senior staff” over pension concerns.

The committee described pension tax rules that are exacerbating pressures on the NHS workforce as a “national scandal” and that the NHS and social care sector were facing “the greatest workforce crisis in their history”.

Commenting in response, a

Department of Health and Social Care spokesperson said: “The NHS Pension Scheme is one of the best available, providing generous retirement benefits for hardworking staff after a lifetime of service looking after our nation’s health, and the majority of NHS staff are able to build their pension tax-free.”

“A small number of senior clinicians on the highest wages will exceed their allowances for tax-free pension saving, as is the case in other industries, and we continue to monitor retirement patterns and hours worked by staff.”

## **“15,583 NHS pension scheme members exceeded the standard annual allowance through the NHS Pension Scheme in 2019/20”**

The issue was further highlighted in a freedom of information request from Quilter, which showed that April 2022 saw 8,902 pension awards, compared to 6,932 in April 2021, and while there are several reasons for someone being awarded pension benefits, Quilter noted the most common reason was retirement.

In an attempt to help address the issue, the British Medical Association (BMA) has proposed the introduction of a tax unregistered ‘top up’ scheme, similar to the one the government introduced for judges from April 2022.

Under a tax unregistered scheme, the employee does not receive tax relief on employee pension contributions and, as there is no tax relief in the first place, the pension savings are not tested against the annual or lifetime allowance measures put in place to limit or retrieve tax relief.

A petition was started by an NHS staff member calling for the NHS Pension Scheme to be made tax unregistered, arguing that the tax bills resulting from annual pension growth can leave senior staff choosing to take on less work

to reduce their tax bill. The petition gathered around 11,500 signatures.

“If the government made the scheme tax unregistered then senior staff will surely be more willing to undertake extra clinics, extra operating lists and contribute to the reduction in waiting times, which have grown significantly since the pandemic,” it stated.

“It is perversely punitive that staff who undertake additional sessions can be faced with a tax bill of more than what they earned for those sessions.”

However, in its response, the government stated that a tax unregistered scheme would remove tax relief on pension contributions, “which is a valuable benefit designed to incentivise retirement saving”.

“The annual and lifetime allowances restrict the cost of tax relief and ensure the incentive to save is targeted across society,” the government said.

“The vast majority of NHS Pension Scheme members are able to build their pensions tax free. Therefore, a tax unregistered pension arrangement would not benefit the vast majority of NHS Pension Scheme members, as it would mean that they lose tax relief on their contributions.

“An unregistered scheme would also mean that members lose the benefit of a tax-free lump sum of up to 25 per cent of the value of their pension on retirement.”

In a debate hosted by *Sky News* in early August, Liz Truss, who at the time of writing is one of two candidates, along with Rishi Sunak, fighting to become leader of the Conservative Party and Prime Minister, hinted that she would look to address the problem if she was chosen to lead the party.

In the session, she said that she will “sort out” the issues with senior NHS staff’s pensions and noted that she had met “lots of doctors” who had gone into retirement because of the specific issues around their pensions.

 **Written by Jack Gray**



# Doing it by the Cook

**▶ Tom Dunstan talks to new Pensions Management Institute (PMI) president, Sara Cook, about her appointment, her ambitions for the position, and her opinions on the cost-of-living crisis and its effect on the pensions industry**

**▶ How do you feel about your appointment?**

It means an enormous amount to me; it's something I have aspired to for probably around 30 years. When I first got involved in the PMI in the 1990s, I thought: "One day, I'd like to be the first lady president of the PMI"; that was my big ambition. I didn't make it, Penny Green had that honour, but it was quite a cheeky aspiration at the time given I was a very junior pensions administrator with literally almost no experience and I thought: "One day I'm going to be the president of the PMI," so I'm extremely proud to represent the institute and its members for the next year.

Hopefully I can bring the passion that I have for the benefits that the PMI can bring to its members, the value that it adds in helping people develop through training and qualifications to achieve their career aspirations.

**▶ What are you looking forward to in your appointment?**

I'm really looking forward to getting back to meeting people face-to-face. I feel very sorry that Lesley Alexander's presidency fell during the lockdown so most meetings were held virtually.

I think we've all got virtual meeting fatigue and I'm really looking forward

to getting out there and being able to experience the buzz of being in a face-to-face environment. I am looking forward to the fact that I think my period of tenure will be getting back to the new normal.

**▶ What goals or objectives do you have for your tenure?**

I know it would be much more exciting if I said I was going to come in and shake everything up and that I have really big plans for the next year, but the reality is that we already have a plan in place. The PMI's board have been through a process of review of our existing five-year plan and have thought about what we need to do in that time period.

We've sought input from the PMI's advisory council and, as with most strategic plans, if you've got the plan right it's more a case of tinkering around the edges rather than completely reinventing what your strategy is.

**▶ Is there anything you're hoping the PMI will achieve or do during your tenure?**

You may or may not be aware that we have recently launched a new qualification structure, which was approved at our July AGM, the purpose of which is to make sure that we can be more inclusive. We have designed five routes to fellowship of the PMI in order

to make the senior membership more diverse and representative of the whole industry.

It can take a long time to get to the senior positions within the PMI's organisation and I think we really benefit from diversity of thought.

The regulators have been talking about diversity within trustee boards, but I think any organisation or forum benefits from having greater diversity of thought, so that's what I'd like to see. We've had really good feedback for that from our stakeholders. I would really like to see the early fruits from this change during my presidency.

I would also like to see more people taking advantage of the PMI's membership by experience (EPMI).

The PMI launched EPMI back in March, and it is open to senior practitioners within the industry as an alternative route to membership, which doesn't require them to complete the institute's qualifications.

They need to be able to successfully demonstrate that they are professionally competent and have a minimum of 10 years specialist pensions knowledge to get this EPMI membership.

We've had the first handful of people come through that process, but it would be good if that could gather pace because bringing in diversity of thought is where the strength in our industry is.

### ➤ How will the cost-of-living crisis affect the pensions landscape?

That's something that I've been thinking about over the past few days. We've all seen the news saying that inflation's reaching 10 per cent, that the fuel cap will rise further, and that there is an expectation that increasing number of people will seek the assistance of food banks.

From a pensions perspective, I am concerned this will all lead to people opting out of their pensions schemes or, for those that are in defined contribution (DC) schemes, not paying the levels of contributions that we all think you need to get a good pension. The knock-on consequence for that for DC members is that it could contribute to retirement poverty in the future. It could also result in people having to stay longer in employment so that will obviously impact employers in terms of their succession planning.

Additionally, I think it's tough out there for companies, especially those with defined benefit (DB) schemes. One of the things that DB schemes have to worry about is the strength of their employer covenant and, in these challenging economic times, members need to pay much more attention to it because it's a possibility that their employer could be affected by what we're

seeing now.

It is possible that we are currently in a perfect storm. We are seeing increased regulatory pressure on pensions schemes, as they are having to look at things like GMP equalisation, they're having to think about funding and covenant, and we've got the regulators' new governance code of practice, which we had all expected to be enforced by now, still expected to be implemented at some point in the future.

**“When I first got involved in PMI in the 1990s, I thought: ‘One day, I’d like to be the first lady president of the PMI’; that was my big ambition”**

What this means is, there's going to be increased levels of regulatory burden on trustees at a time when, potentially, it's going to be more challenging for them to seek funding from their employers.

Trustees are in a situation where their employers are dealing with the cost-of-living crisis as well, they're dealing with inflationary pressures, and the fact that people might not be buying their products, at a time where there might be more regulatory challenges coming down the line.

The trustees, in many cases, are going to be required to comply with this, and yet it could potentially result in an

increase in advisers spend [*due to the cost of bringing advisers on board*].

### ➤ What are some of the other issues facing the pensions industry today?

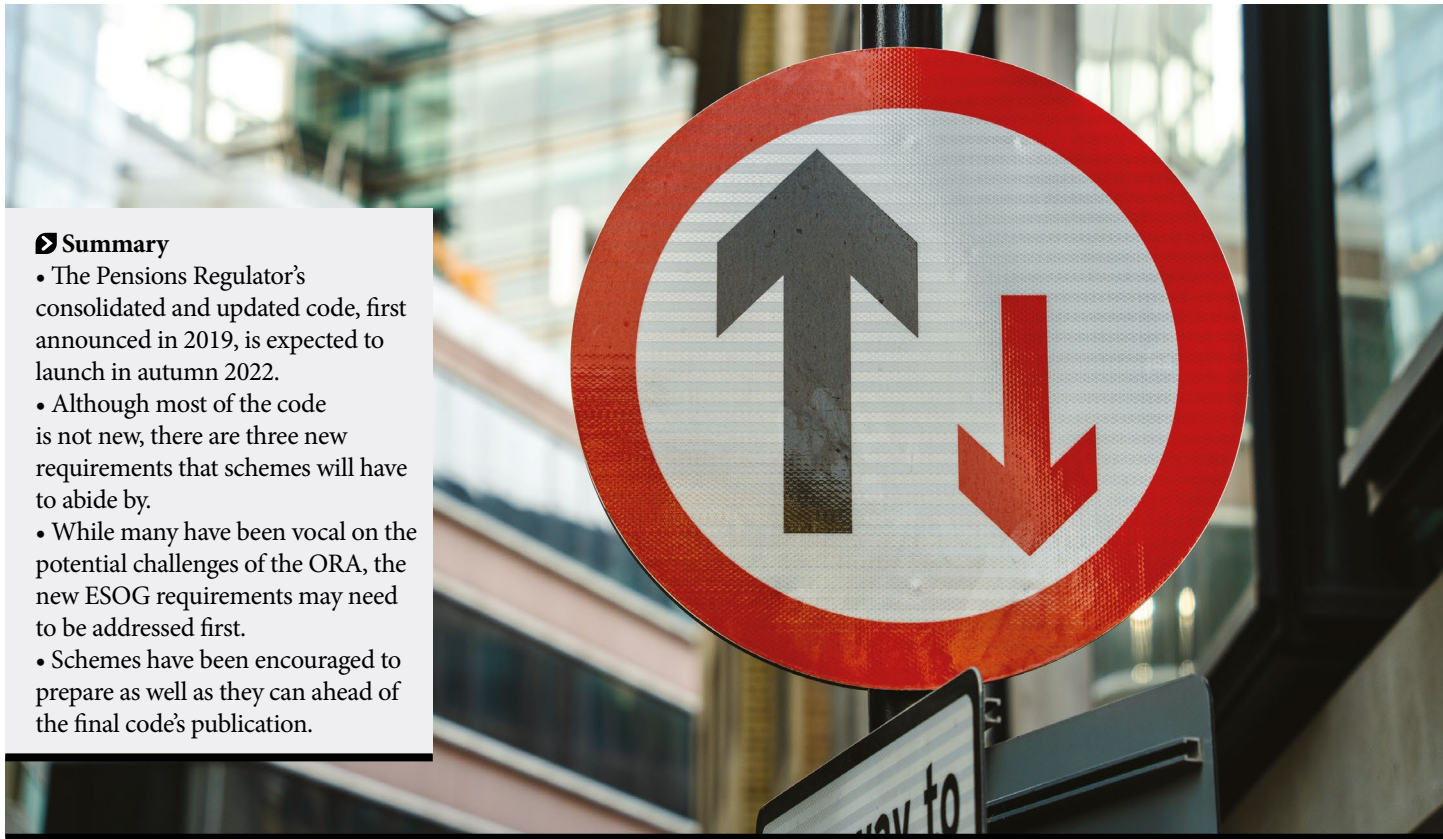
One of the things I've been thinking about recently as well is the increase in regulatory and policy pressures that we are seeing and, as a result of this, I think the role of becoming a trustee is becoming more onerous.

I think it's right and proper that trustees should know enough about pension schemes to be able to challenge their advisers and complete the trustee toolkit, I think it's right and proper that they have enough time to do the job properly because they're looking after a great deal of money.

However, when you look at it on the flipside, individuals might look at the role and think it's very challenging, they might not feel comfortable with the level of responsibility that comes with it. Therefore, I think we will continue to see challenges for schemes filling their member-nominated trustee roles. We have already seen a number of closed DB schemes with no members, basically just deferred pensioner members, that find it a challenge, but I think, potentially, it will become increasingly challenging to get people who are interested in stepping forward into those roles.

➤ Written by Tom Dunstan





### Summary

- The Pensions Regulator's consolidated and updated code, first announced in 2019, is expected to launch in autumn 2022.
- Although most of the code is not new, there are three new requirements that schemes will have to abide by.
- While many have been vocal on the potential challenges of the ORA, the new ESOG requirements may need to be addressed first.
- Schemes have been encouraged to prepare as well as they can ahead of the final code's publication.

# Get your priorities straight

Pension schemes and their trustees have had a multitude of new requirements thrust upon them over the past few years, and this year is no different. In the autumn, The Pensions Regulator (TPR) is expected to publish the final version of its single code of practice, which will update and consolidate the regulator's existing codes of practice. While there are new governance requirements for schemes to contend with, the aim is for the code to simplify and improve governance

**TPR's updated single code of practice is due to come into force in the autumn. Jack Gray looks at the new requirements, how they will impact the day-to-day governance operations of schemes and what trustees need to prioritise**

practices in the longer term.

TPR first announced its intention to consolidate its codes of practice in July 2019, with a consultation on the code published in March 2021.

"It's taken far longer than we had hoped," says TPR policy lead, Nick Gannon. "Admittedly, we didn't have global pandemic on the risk register when we started the project, so that's one

of the major stumbling blocks.

"We've combined 10 codes of practice. Most of the expectations are existing expectations. In terms of the 'new new', there are probably three main areas."

### The 'new new'

Although much of the code of practice will be made up of existing expectations, there are three key new requirements: The own risk assessment (ORA), effective systems of governance (ESOG) and remuneration policy. Gannon explains that the remuneration policy will be new for a lot of governing bodies and will focus on how they spend their money and the policies around that.

"We got a lot of feedback on that because that was new ground for us as well when we consulted," he continues. "That's one of the areas where it's fairly similar to what we consulted on, but we've rowed back on some of the more contentious issues."

Gannon notes that many were concerned that the ORA was a “big new thing” that was going to be a huge Solvency II exercise or internal risk assessment, but he assures that’s not what the regulator has done.

Squire Patton Boggs partner, Kate Bailey, states that for most well-run schemes, day-to-day governance is likely to be refined and improved, with more scrutiny on processes and procedures.

“For schemes with less governance practices in place, the code is likely to drastically improve the standards of governance,” she continues. “The aim is to ultimately improve member outcomes, by helping trustees identify any issues or areas of concern sooner, so they can take remedial action and prevent more serious issues from arising.”

Meanwhile, Russell Investments director, UK institutional, Owen Davies, warns that the three main new requirements are expected to be a “significant amount” of additional work for trustee boards.

“Trustees and their advisers will need to ensure that the new single code of practice – and the obligations which come out of it – are given sufficient time and resources in the coming months so they can demonstrate compliance with it once it becomes effective,” he states.

### Preparing for the challenges

Despite much of the focus in the build up to the updated code being on the ORA, schemes should focus on getting their ESOG in place first, with Gannon noting that if schemes do their ORA before their ESOG they are “putting the cart before the horse”.

“You’ll probably have a year/18 months to worry about completing the first ORA,” he says. “That’s not the immediate thing to worry about, make sure your governance is effective and you’re following the principles set out in the code.”

LCP partner, Rachika Cooray, echoes this sentiment, stating that while trustees may feel overwhelmed by the code’s

new requirements alongside their other duties, the ORA should not pose “too much of a challenge” for schemes with an engaged governing body and strong governance processes.

“Schemes should first complete a gap analysis of their governance policies and frameworks against ESOG in the code and then formulate a plan to address any gaps,” she comments. “Once this is done, it will be easier for schemes to then complete the ORA.”

## **“[The ORA] is not the immediate thing to worry about, make sure your governance is effective and you’re following the principles set out in the code”**

“Schemes may wish to prioritise putting in place policies and procedures where they currently have none,” adds Bailey. “However, in practice we’re finding that a mixture of tackling some ‘easy wins’ and some more complex policies, whilst distributing the order of priority between the allocated advisers so there are no ‘blockages’, keeps compliance projects moving.”

Ross Trustees trustee director, Clare Kember, agrees that trustees should prioritise gap analysis, but warns that whilst many schemes will already have robust governance frameworks in place, some may struggle to identify any gaps in their existing policies, processes and procedures, or close those gaps, without some form of additional support.

“Strong schemes are underpinned by strong governance, which should be proportionate to the size and complexity of the scheme,” she continues. “However, some may find challenge in establishing what is ‘proportionate’ in the code, and instead adopt a belt-and-braces approach, setting them up well for the future as regulatory requirements are

likely to evolve.”

Bailey says that while the biggest challenge facing schemes is fitting compliance into an already packed agenda, leaving it late will pile on the pressure.

“The code contains 51 modules and reviewing existing policies and drafting new policies and procedures, will be time consuming,” she says. “Another key challenge will be establishing the scheme’s internal control framework, and in particular what the risk management and internal audit function will look like.”

### Assuaging concerns

“If you’re in an existing well-run scheme, then there’s very little to fear from the new code,” Gannon assures. “Admittedly there is a few new policies that you need to have documents, but once they have got that initial bump, there nothing really new for a well-run scheme.”

Those with good existing governance structures should be less burdened by the new requirements, with Davies noting that there has been an industry-wide focus on good governance in recent years and that trustees need to ensure they can rise to the challenge.

“For many smaller schemes, the additional costs associated with complying with the new single code of practice could be another reason to review what their end game options look like over the medium to long term,” he adds.

With the code expected in the autumn, Gannon notes that TPR is still on the finishing touches as “we want to make sure it’s right”.

“Concentrate on getting your ESOG in place and plan for the improvements you need to do,” he urges. “We are a pragmatic regulator, so if it’s going to take you a little while to get things in place then plan for it so you understand what the process is you’re working towards. Then it’s easier for those improvements to come in.”

 **Written by Jack Gray**



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AXA Investment Managers global head of pensions, Rachel Basarab-Horwath, looks at how pension trustees can deliver real, positive impacts for society and the environment while meeting their scheme's strategic financial objectives **p58**

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# Impact investing focus:

## Harnessing power

► AXA Investment Managers global head of pensions, Rachel Basarab-Horwath



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# Investing in a better future for people and planet

**AXA Investment Managers global head of pensions, Rachel Basarab-Horwath, looks at how pension trustees can deliver real, positive impacts for society and the environment while meeting their scheme's strategic financial objectives**

Investors of all types are increasingly looking to how they can deliver on their strategic and financial goals while helping to address the environmental and social challenges that we all face. For pension trustees, this has an added sense of urgency. As well as focusing on positive pension outcomes, they must also consider how they can invest to help make a better world for their members to thrive in.

These are not competing goals. In fact, we believe there is a virtuous circle where a desire for change can lead to innovation and development that can benefit investors with a long-term outlook.

Building resilient economies and infrastructure for a future that may look very different from today will require investment on a huge scale. Remaining ahead of the curve on policy, regulation and consumer behaviour creates a clear opportunity for both smaller companies and the largest corporations on earth, and therefore for investors looking for long-term returns from enterprises that drive positive change.

The demand for sustainable investments is high: 70 per cent of the UK public want their money to go towards making a positive difference. Members – particularly younger members – are more likely to engage with and contribute to their schemes if they believe they are helping to make things better. And with

over £4 trillion of assets in UK pensions, we as an industry have a massive opportunity to encourage positive outcomes for people and our planet.

## Investing in companies that make a better world

This is where impact investing comes in. Impact investors seek to invest in companies or projects that actively address social and environmental challenges without giving up returns for the investors they represent.

The sector has been built on strong private market foundations, but a rapidly growing roster of listed companies now provides products and services that meet the criteria for impact investors. This scaling up, through the development of innovative equity and bond strategies, is offering trustees greater choices in the ways they seek to deliver positive outcomes for their members and the world at large.

## A disciplined focus on prosperity for people and the planet

The 17 UN Sustainable Development Goals (SDGs) – aimed at mobilising efforts to end poverty, fight inequality and protect and preserve the natural environment – provide a good starting point to identify long-term secular growth opportunities.

When looking at investment areas that can support the SDGs, AXA IM

considers the long-term, structural trends that are transforming global economies, driving innovation and redefining business models. In recent years, we've seen increasing emphasis on environmental and social concerns, and we think this will continue due to global policy and regulation, and corporate and consumer demand.

**“We are beginning to see trustees look beyond climate change to address the impact of human activity on biodiversity loss”**

While mitigating carbon emissions is a top priority, we are beginning to see trustees look beyond climate change to reduce the impact of human activity on biodiversity loss. To this end, addressing some of the big social issues – such as food and energy security, and shelter – will be imperative to help people support the climate and biodiversity impact mitigation goals.

We've distilled these long-term opportunities into a set of overarching themes. These focus our attention on where we can have the greatest impact as investors while maintaining our commitment to client outcomes.

## Translating impact themes into investment outcomes

While the impact of a company's operations is important, we believe that the most positive impact comes from products and services that make a long-term contribution to a sustainable economy – for example, companies that

Listed impact investing themes

Prosperity for people

Empowerment	
Education & Entrepreneurship	Human Capital & Diversity
Health & Wellbeing	
Wellbeing & Safety	Healthcare Solutions
Inclusion	
Financial & Tech Inclusion	Housing & Essential Infrastructure

Prosperity for the planet

Energy Transition	
Smart Energy	Low-Carbon transport
Sustainable Industry	
Sustainable Production	Agriculture
Resource Scarcity	
Recycling & Waste Reduction	Water

Source: AXA IM. For illustrative purposes only.

research and develop technologies to reduce single use plastic consumption or create alternatives to plastics, such as biodegradable packaging. These types of company have a clear, tangible impact objective to help protect ecosystems and biodiversity.

We believe that a rigorous and consistent impact framework is vital to understanding and quantifying the impact outcomes of listed investments, and of being able to communicate them back to investors. An impact framework not only provides a rigorous analysis of a company’s impact credentials, but also provides a measure to hold companies accountable on environmental, social and governance (ESG) performance and the positive impact of their products and services.

There are five main areas we consider when we analyse what companies do: intentionality, materiality, additionality, negative externalities and measurability. Of these, we pay particular attention to:

**Materiality** – Are the impactful products

or solutions they are providing significant to the business? Does it make a real difference to beneficiaries of the product or service? Does it materially improve the outlook for that industry?

**Additionality** – Is the company’s product or service better than would otherwise be available? Does it have longevity and a sustainable competitive positioning over the long term?

**Measurability** – Do we really understand what a company is doing? Can we track their progress with measurable key performance indicators that are specific to their company?

**Active engagement with companies to drive real change**

One of the most powerful ways to bring about real change is by engaging with the companies in which we invest on our clients’ behalf. Engagement is also vital to protecting shareholder value, and so it’s important to exercise voting rights and to influence corporate behaviour.

As a large investor, we can have a lot of influence when we engage with companies, either directly or in cooperation with other investors. We can encourage the companies we invest in to focus on UN SDG-aligned corporate behaviour to enhance the impact they make, while protecting long-term returns by engaging with companies on their weakest areas.

While it’s important to maintain a disciplined separation between financial outcomes and our non-financial goals, we believe that the two are ultimately intertwined. We can help people and our planet by providing capital to companies that seek to improve the world, while helping members access over-arching trends that will drive returns in the future.

Written by AXA Investment Managers global head of pensions, Rachel Basarab-Horwath

In association with



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In the age of ESG, tapping into key financial markets megatrends while addressing some of our most important sustainability challenges, such as climate change, biodiversity loss and social inequalities is rising in importance for pension schemes.

Impact investing, or the strategy to generate targeted social or environmental outcomes in addition to financial gains, has evolved from a niche segment of the sustainable investment sector to a market worth £58 billion in the UK alone, with a further £53 billion of impact-aligned investments, according to the Impact Investing Institute.

On a global scale, impact investing has snowballed to hold \$2.1 trillion (£1.74 trillion) in assets under management, International Finance Corporation research shows – a bellwether for the growing institutional interest in the space.

In the UK, more than 50 per cent of pension schemes hold some form of impact investment, as of March this year. The research, conducted by Pensions for Purpose and sponsored by Big Society Capital, found that UK pension funds are increasingly taking impact investing into consideration, with 90 per cent of respondents looking to make such investments in the UK.

### Making the first impact

“The interest of pension funds in impact investing is being driven by the greater interest in ESG, sustainability, social impact and climate change, which we have seen in recent years,” says Independent Trustee Services director, Graeme Griffiths. He believes

### Summary

- Impact investing is rising up schemes’ agendas, with institutional investors increasingly seeking to make impact allocations.
- COP conferences and the rise of ESG have spurred trustees to consider societal impacts alongside financial returns.
- The investment industry is adapting to offer more expertise and impact investment products.
- Data is seen as the major hurdle preventing a broader uptake of impact strategies.
- Frameworks such as the UN’s SDGs can be used as stepping stones for schemes to establish their own impact agenda.

# Why pension schemes are making a noise about impact

## Schemes are increasingly turning to impact investment strategies to deliver outcomes for members and society as a whole

there has been a step-change in how pension schemes view the opportunities presented by impact investing in the wake of the pandemic and successive COP conferences.

“Greater concern about climate change, particularly since the Paris Climate Agreement, signed by 196 parties at the COP 21 conference in 2015, has driven a rapidly rising interest in sustainability and ESG from both investors and pension scheme members. The increased demand from firms and individuals has led to a proliferation of ESG and impact strategies and solutions,” he adds.

In particular, the attraction to the space comes in the duality of outcomes, he says – “attractive financial return, and positive societal or environmental benefits”.

There are other tangential appeals too. Around three-quarters of pension schemes have either net-zero plans in place or will soon have them, research from the Pensions and Lifetime Savings Association shows. As schemes increasingly look towards net-zero

targets, impact investing is offering opportunities to engage with investment opportunities that can aid in achieving either specific goals or broader portfolio-wide objectives.

Meanwhile, the investment industry is pooling expertise, capabilities and opportunities to cater for the burgeoning institutional demand for impact investment.

AXA Investment Managers senior equity investment specialist, Sian Long, points to a “rapidly growing roster of listed companies” that are now “providing products and services that can deliver positive and demonstrable impacts for people and the planet”.

Yet for many schemes seeking to make an impact, quantifying, measuring and legitimising the outcomes of such investments is proving to be a hurdle.

### Measuring change

The integrity of impact investing is dependent on being able to verify outcomes through accessible data, and while there is an inherent “sense of alignment in the longer-term outlook of

pensions, the timeframe for ESG risks biting and environmental and social impact being realised”, according to Insig AI head of ESG research, Diana Rose, it is hard for trustees to monitor and assess impact-related data, owing to several factors.

Primarily, there is no “easy, universal method” for measuring impact, so it falls to the pension fund to “go beyond screening to define its own impact targets, and to assess portfolios against them”, she says.

The issue is catalysed by the scope of impact investing, with industry efforts to overcome ESG data challenges overlooking more niche areas such as biodiversity.

There is not yet a universally agreed definition of what constitutes biodiversity or an agreed method to price natural capital, and the same is true for countless other factors. But industry forces are driving change that is giving investors enough assurance to act now.

New biodiversity-focused solutions are being developed today that offer some hope in addressing biodiversity metrics gaps. Innovators such as Iceberg Data Lab, CDC Biodiversité and ENCORE are seeking to drive a potential future consensus on biodiversity metrics by developing and testing approaches suitable for global corporate and portfolio biodiversity assessment. Global ESG data providers are also expected to develop biodiversity solutions that could eventually be scaled up.

### Seizing the moment

In light of the numerous hurdles facing prospective impact investors, there is a need to partner with the right specialist to obtain “meaningful oversight”, Rose says.

“There are hundreds of data points flying around in an alphabet soup at the moment and still an education piece is needed at the highest levels. Trustees have arguably the greatest agency to move the needle in sustainable investment, but increasingly they will

need access to relevant, robust and meaningful information, wrapped up in context, to make decisions,” she adds.

Similarly, there is a need for trustees to establish an impact investment strategy that not only aligns with their fiduciary duties and members’ interest, but also facilitates meaningful change.

“The decision will inevitably mean facing financial risks and returns, including related costs and liquidity,” notes Griffiths, adding that a crucial element of investment success for pension schemes is having “clear impact targets available” to regularly compare performance.

“In general, it’s best to observe for a little while, and when ready, to start small,” he says.

For many schemes, and impact investors more broadly, the need to have a supporting framework in place leads them to invest along the lines of the UN’s Sustainable Development Goals (SDGs). The 17 goals span environmental, social and economic factors and can act as a basis for a scheme’s impact investment approach.

“What we are seeing from pension schemes is increasing demand for mandates and pooled solutions that seek to address all the SDGs and to deliver positive outcomes for people and planet, and we are seeing this in both equities and fixed income,” Long says.

For AXA, this approach is realised in their five-step impact framework, which covers intentionality, materiality, additionality, negative externalities, and measurability.

Long says: “In putting our five-step listed equity impact framework to work, we seek to deploy capital with impact leaders in a way that sends clear price signals to the market while using engagement to encourage SDG-aligned corporate behaviour.”

Similarly, Griffiths points to Bridges Fund Management’s four categories that relate to impact. The distinction between the four, in essence, is the financial return

each one is expected to deliver.

Impact Version 1 refers to investments that address societal challenges and delivers a competitive financial return. Impact Version 4 addresses societal challenges that cannot generate a financial return. The other two groups lie between the two.

“Pension funds are likely to be comfortable in investing in the first category, and possibly even the second depending on scale, but are less likely to consider the latter two categories at any meaningful level. These are more the domain of development finance institutions, impact-focused foundations and endowments, and philanthropists or private investors,” says Griffiths.

Imperatively, schemes must consider how their members fit into any kind of impact framework. From fully considering the fiduciary implications, engaging with place-based impact investing to engaging with members to understand what matters to them.

“Initiatives like Make My Money Matter are raising public awareness around how people can start to ask questions of their pension providers about how their money is invested,” Rose says.

There’s a generational shift happening but still a long way to go to give people the sense they can influence outcomes using their pensions. Research shows that goodwill is there for ethical investing, but it’s more daunting than everyday decisions such as recycling or buying locally.

For schemes looking to embark on an impact journey, the lessons are clear – determine a robust framework, develop expertise and partnerships and be prepared to navigate a tricky data environment.

Written by Tom Higgins, a freelance journalist

In association with





#### Summary

- Working relationships between trustees and service providers and advisers can have a profound influence on retirement outcomes for pension scheme members.
- The best working relationships are based on mutual trust and respect, openness, and clarity around service scope, expectations and fees. Trustees should treat providers and advisers as they would wish to be treated themselves.
- Maintain regular contact with advisers and providers, and be as open as possible about the broader context within which they are working in terms of the trustees' strategies for the scheme.
- Trustees should consider ways to improve relationships with specific specialist advisers and sometimes unsung service providers, such as administrators.
- Better working relationships should result in improved performance, easier conflict resolution and increased responsiveness and commitment to the scheme on the part of providers and advisers.

## Stronger bonds

► Few things are as important to pension scheme member outcomes as the relationships between trustees and the scheme's service providers and specialist advisers. David Adams looks at steps trustees can take to ensure the scheme gets the most out of them

Running a pension scheme successfully is a remarkable collective endeavour. Trustees are effectively leaders of an extended team that must work together to deliver the best outcomes for scheme members. At the heart of that team is the partnership between the board and the scheme sponsor, but

strong working relationships with the providers and advisers that support the scheme, including administrators, actuaries, lawyers, investment managers, consultants and others, can have a profound influence on the fortunes of the scheme and its members. What can trustees do to build and nurture those relationships?



relationships will be based on mutual trust and respect.”

That trust and respect must be based on openness and honesty on both sides, including clarity about what each side expects from the other, in terms of the objectives and scope for a provider’s or adviser’s work, and the cost of that work.

“You don’t want any surprises,” says Pi Pension Trustees trustee client lead (and independent trustee), Lynn Pointon. “You will pay a fair price for the work they do, so encourage them to be up front about it will cost.” It will also help if advisers and providers are always paid on time. “Treat people as you would want to be treated yourself,” says Pointon.

### **“Strong working relationships with the providers and advisers that support the scheme ... can have a profound influence on the fortunes of the scheme and its members”**

Punther Southall chief operating officer (and professional trustee), James Double, also stresses the need to be “firm but fair”. “You can’t just demand things with unreasonable deadlines,” he says. “Give them sufficient notice and an appropriate deadline.”

#### **Communication**

There also needs to be clarity around how the adviser or provider communicates with the trustees. “There also needs to be an effective reporting line, with a key point of contact who is accessible and responsive,” says Double.

Strong trustee/adviser or trustee/provider relationships often seem to be based on genuine collaboration and consultation, rather than purely transactional arrangements. “Often

relationships break down when they have become too transactional,” says Muse Advisory director, Barry Mack.

Instead, it may be helpful to give advisers and providers plenty of extra information and context about the scheme and future strategies. “It’s easy to operate on a need-to-know basis,” says Pointon. “I think advisers find that difficult sometimes. They would like to see the bigger picture, rather than just information that relates to their particular area of expertise.”

She acknowledges that confidentiality, legal, regulatory and other restraints may limit this. “But the more you can foster an open environment, the better.”

Double agrees. “If [advisers] are not fully briefed, if they’ve not been given the bigger picture, they’re not going to be able to give you the holistic advice that you need,” he says.

#### **Contact**

Working relationships are also likely to benefit from more regular contact. Pointon thinks that the gradual move back to more face-to-face meetings, after several years when so many meetings have been screen-based, should help, but she also sees value in more regular contact generally.

“With large schemes that may happen naturally, as trustees speak to advisers on a regular basis, but with smaller schemes you can have a flurry of activity around a trustee meeting, followed by a quiet spell when nothing much happens,” she says. “One thing we’re trying to move towards is regular, light-touch catch-ups with key advisers. With the list of governance and compliance requirements getting longer, you need an effective way of managing those relationships that doesn’t incur disproportionate cost. These regular, typically monthly, catch-ups can do that.”

It is important to try to build strong relationships on a personal level, but also important to be prepared for changes of personnel on both sides. Mack suggests trustees try to make sure that

#### **Chemistry**

To start with, they can try to base selection of advisers or providers in part on an attempt to assess how well they might work together. It is impossible to be certain how well a working relationship will function before it begins, but it should be possible to get some useful indications. As Hymans Robertson head of governance consultancy, Laura Andrikopoulos, puts it, trustees should be looking for an adviser or provider “who inspires confidence, is clear about what they will do and when they will do it, and delivers in line with agreed timetables and scope”.

“The most successful relationships tend to be those where there is sufficient commonality of values, and where key personalities on each side gel well together,” says Andrikopoulos. “These

advisers and providers are managing succession properly, so the scheme is not disadvantaged when an experienced individual leaves a company.

There may also be steps trustees can take to improve relationships with specific types of adviser or provider. In June 2022 a steering group created by the Pensions and Lifetime Savings Association (PLSA) and the Investment Association (IA) published a report, *Investment relationships for sustainable value creation*, containing recommendations on how to improve relationships between pension schemes and investment managers. They included greater clarity around stewardship expectations, use of a governing charter to set expectations on reviewing managers' delivery of sustainable value, risk management practices, culture and governance; and use of an oversight framework to align objectives and performance indicators.

Trustees should also acknowledge the contributions of other service providers that do vital work behind the scenes, particularly administrators.

"Administrators never get thanked for the good work that they do, but are always criticised for things that go wrong," Double points out. "It doesn't take much to thank them if they are doing a good job."

Where schemes do succeed in building better relationships with providers and advisers, they and their members will benefit in multiple ways, says Double: "If you find you need something very urgently, if you've built that relationship with someone over the years they are more likely to respond and go the extra mile for you."

### Conflicts

A good relationship will also be better placed to survive the problems and conflicts that are bound to appear from time to time.

"You need to address concerns about what's working and what isn't

straight away – don't let them fester," says Mack. "You need to have an honest conversation. You also need an environment where they can express their concerns too, because it's a two-way thing."

"If you're not getting what you want out of your adviser, I would try to pick up the phone and have a 'clear the air' call," says Pointon. "Don't hold back from difficult conversations. Handle it calmly and rationally, so the pressure doesn't build up. But also, if you've not handled something as well as you could have done, apologise."

Difficult conversations might involve talking about individual advisers, or within a provider's team. "Be prepared to have conversations about changing the team line-up, rather than changing the adviser," says Independent Trustee Services marketing director, Ian Terry. "It's easier to have those discussions if you've had that regular, ongoing dialogue."

Pointon also notes the additional value schemes may gain from helping to nurture relationships between each

of the advisers and providers; and between them and the scheme sponsor, particularly if or when the scheme goes through a major event like a risk transfer, or some sort of upheaval involving the sponsor.

Ultimately, the aim must be to create a genuine sense of cooperation within this extended team of trustees, providers, advisers and sponsor, as they all work towards common goals. "Strong relationships are formed where advisers and trustees feel they are part of the same team, working for the good of the pension scheme and its members," says Andrikopoulos.

But this is not just about making everyone feel better. Time, money and effort invested in creating those relationships "is never wasted if it results in better advice or performance," says Mack. "You want to get the best out of your providers and advisers, so you need to create an environment where they will give you that. Our experience is that advisers will go above and beyond for clients that they enjoy working with. I would say, make yourself that client. If you do that, that's when you start to get really good value for money."

 **Written by David Adams, a freelance journalist**





# Leaders of the pack

➤ ***Pensions Age* takes a look at some of the industry figures driving the pensions industry forward in key areas, such as the fight against pension scams and the development of pensions dashboards**



**Pension Scams Industry Group (PSIG) chair, Margaret Snowden, OBE**

Snowdon is a high-profile figure in the

pensions industry, currently acting as chair of the Pension Scams Industry Group, as well as president of the Pensions Administration Standards Association (Pasa). Snowdon has committed to raising the standard of administration and improving member outcomes, wearing many industry hats, including as non-executive director (Ned) at Phoenix Group With Profits Committees, The Pensions Regulator and Xafinity plc. She was appointed an OBE in the 2010 New Year's Honours List for services to pensioners, and has given evidence on key issues to parliamentary committees, including in relation to the tax issues impacting victims of pension scams. She is also a governor and member of the Council of the Pensions

Policy Institute (PPI) and is a fellow and former vice president of the Pensions Management Institute (PMI), as well as fellow and past chairman of The Pensions

Advisory Service. In addition to this, Snowdon was an independent member of the steering group for the pensions dashboard prototype project.

**Looking ahead, Snowden says: "It has been my privilege to lead the industry in combating pension scams and to push authorities hard to recognise and act against a decade of devastating pensions theft. PSIG has made an incredible difference and our code has helped raise awareness as well as preventing countless individuals from losing their life savings. Saving for the future is going to get harder, so protecting what people have saved will be even more vital. However, the future should not be about continually policing transfers; it must also be about making pensions simpler and more relevant to people's lives. The pensions industry needs to get closer to its customers so that scammers don't get opportunities. My wish is that PSIG will soon be able to say 'mission accomplished'"**



**Simpler Annual Statement Template Initiative lead, Ruston Smith**  
Smith co-chaired the Automatic Enrolment

Advisory Board for the Department of Work and Pensions (DWP) in 2017, and in 2018, he led the initiative to create a simplified annual statement for all schemes and providers to adopt, which the government has since implemented, with regulations to come into force from 1 October 2022. He has over 30 years' experience in the pensions industry, including 14 years as the group pensions director at Tesco, and has held senior positions with responsibility for strategy, governance, investment and operations for a wide range of UK funds. Smith is also a non-executive director at PMI, and chair of its board.



**Nest Pensions CEO, Helen Dean, CBE**

Having been tasked with coming up with a solution to the UK's chronic under-saving in

pensions, Dean was one of the architects behind auto-enrolment and responsible for bringing nine million UK workers into pension saving. Following her time at DWP, Dean joined PADA, Nest's predecessor, where she moved from policy to delivery. In the time since,

Dean has led the product, marketing and operations arms of Nest, and was appointed Nest CEO in September 2016. At the helm of one of the largest pension schemes in the UK, Dean has been a mentor to female pensions and non-pensions professionals, and is a signatory to the Women in Finance Charter on behalf of Nest, as well as overseeing the creation of Nest's first diversity group. She is also working with Nest's board to establish a senior leadership programme to cultivate the next generation of diverse leaders for Nest.



**PensionBee CEO, Romi Savova**

Savova founded PensionBee in 2014 in an effort to simplify pension savings in

the UK, following a difficult pension transfer experience of her own. Savova, who received an MBA from Harvard Business School, began her career at Goldman Sachs at the height of the 2007 global financial crisis in the Credit Risk Management and Advisory Division, having since spent time at Morgan Stanley and Credit Benchmark.



**NextGen chair, Caroline Escott**

Escott, who is also Railpen senior investment manager, was

appointed chair of NextGen Pensions in April 2021, having gotten involved with the group as she thought that the pensions industry needed to become "a lot more representative of the diverse savers it's working for, particularly the younger savers". Previously, Escott was in charge of the investment, stewardship and collective engagement programme at the Pensions and Lifetime Savings Association (PLSA), having also held the role of head of public policy at the UK Sustainable Investment and Finance Association (UKSIF) prior to this.

## Commenting on the future of the pensions industry, Escott says:

**"My main hope is that our industry becomes ever-more diverse and welcoming of new perspectives and experiences. This is necessary to ensure we are better able to respond to, and reflect, the needs of diverse savers in an increasingly uncertain world. I find it impossible not to feel optimistic about our sector's future when I witness the commitment and enthusiasm of our NextGen volunteers as they help others on their career paths and drive the industry conversation on DE&I forward"**



**Pensions Dashboards Programme (PDP) principal, Chris Curry**  
Curry was appointed as principal of the PDP at the

Money and Pensions Service in 2019. He is also director of the PPI, and worked on a number of projects for the DWP Auto-Enrolment Review Advisory Group in 2017, where he was co-chair and led on providing advice on contributions. He started his career as economic adviser at the Department of Social Security (now the DWP), before joining the Association of British Insurers as senior economist.

**Curry says: "Digital is going to be vital for the pensions industry in the future. There is going to be a greater need for making sure that data on pension scheme members data is up-to-date and in a digital format. This is going to be crucial as schemes begin the process of connecting to pensions dashboards. There will also be greater opportunities for digital engagement with customers, bringing the way that people interact with pensions into line with the way they conduct the rest of their lives"**



**Transparency Task Force (TTF) founder, Andy Agathangelou**  
Agathangelou formed the TTF

in 2015 after a meeting he led at Senate House, University of London, about the need for the financial services industry to behave in a more trustworthy way and how harnessing the transformational power of transparency can drive the change that is needed. Agathangelou is also chair of the Secretariat Committee to the All Party Parliamentary Group (APPG) on Personal Banking and Fairer Financial Services. In addition to this, he is a PPI governor, and the former founder of Friends of Automatic Enrolment and chair of the Friends of the Association of Member Nominated Trustees (AMNT); an organisation he helped to create.

**Agathangelou says: "The UK's pensions industry is making slow but steady progress towards transparency; and through that it will eventually realise its true purpose, which is to serve the needs of pension savers. A major milestone still to be achieved will be when there is full transparency on costs, charges and investment holdings, all expressed in a clear and intelligible way, at an individual level. I wonder how much longer it will take to get there"**



**Small Pots Co-ordination Group chair, Andy Cheseldine**  
Cheseldine was appointed as chair of the Small Pots

Co-ordination Group last year, in an effort to tackle the problems associated with the large number of small pension pots in the UK industry. He is also a professional trustee at Capital Cranfield, and has over 30 years' experience, having previously acted as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and latterly as a partner at LCP. He also served on the PLSA DC Council from 2013-2019, and sat on the PQM Standards Committee from 2020, chairing it from 2021.



**Tumelo CEO and co-founder, Georgia Stewart**  
Stewart co-founded Tumelo in January 2018 in an effort to help every investor make positive impact,

with Tumelo's solution giving retail investors and pension members visibility over their underlying fund holdings and a shareholder voice on issues they care about at companies they own. Stewart's passion in this space was also seen during her time at Cambridge University, where she campaigned to transform how Cambridge's £6 billion endowment pot was invested, calling for transparency as well as shareholder engagement on critical issues like gender and climate change. She has worked for Jupiter and Alliance Trust on sustainable asset management, as well as Fauna and Flora International on natural capital.

➤ **Written by Sophie Smith**



## Industry reflections: Robert Branagh

**A**t the start of my career there was a lot more formality and a status conscious workplace with very limited diversity or technological inputs to serving members. The concept of a job for life, affinity and loyalty for your employer, training, and formal qualifications in a DB pension world, with surpluses and little need for communication on benefits was the norm.

However, back at the end of the 80s-early 90s, no one had a mobile phone and lunch hour meant just that – many colleagues went home for lunch and took an hour – although I don't regret the passing of the long liquid lunches that were prevalent in those times too. Yes, the computers were clunky, and we had to look stuff up in books and use the telephone but actually it was quite fun to work in an office back then. Typing pools, tea trolleys, staff canteens/social clubs and even carbon paper fill my memory of what was, perhaps, a simpler time.

Document management is likely to have meant just one thing – paper, and plenty of it! Finding the right document could mean hours of painstaking searching through racks of files in dusty basements or having to get the microfiche reader out and spend hours looking for that all-important document.

We still used fax machines and signatures on documents meant very senior people only signing, and then recording again the signing in a large master book, not like DocuSign these days, and I remember seeing Filofax's and the first brick-sized mobile phones also starting to become more widely adopted. (Nokia 6110 anyone?) If you don't recognise these terms look up *Only Fools and Horses* on YouTube, itself only launched in 2005 on something called the internet.

The era of fax machines ended with the rise of email, more recently, instant and group messaging platforms like Mi-

**➤ Robert Branagh is CEO for the London Pension Fund Authority. He has worked for trustee, not-for-profit, private-equity owned, and insurance businesses over the past 30 years. He has also managed the back office or pension functions for several pension schemes and been appointed to the board of The Pensions Ombudsman**

crosoft Teams are widely used, alongside video conferencing systems like Zoom. Now we spend hours on the internet doing our professional reading/keeping up to date but back in the day we would have to pass round newspapers/trade journals/reports internally and ticking off your name when you'd read them; even *Pensions Age* after its launch in 1996!

Back then when we all had our own desk, we were very precious about our desk and its pot plant, framed photos, and proximity to the printer. Carefully guarding your stapler, hole punch, scissors, and calculator has all been replaced by more open plan offices, hot desking and now if it's not online, I don't want to know. The current enthusiasm for a better work/life balance seeing a mixture of time in the office and time working from home would not really have been acceptable back then.

Alongside these technological changes, our industry has seen profound change in the system itself and that mirrored societal changes too. The rise of individualism in the Margaret Thatcher years coincided with the move from DB to DC and the increasing transfer of risk from employers to members which now sees such an imbalance in DB/DC provision. Whilst AE has been a success in getting more people to save something for retirement, are the amounts going in sufficient to sustain a good retirement? Will pension freedoms really allow individuals to make the right success of their retirement?

Recent research has also established that many people will have more than

a dozen jobs in their careers, individual workloads have significantly increased and stress at work and a dilution of employer paternalistic support and benefit provision has made the pensions industry quite a challenging place today, certainly compared with the 90s. Understanding IR12 and why and how pensions worked back then has been replaced by automation, efficiency, and a reduction in member focus for many professionals in the industry. The industry now boasts a staggering array of different types of organisations alongside the insurance companies and pension schemes when I started but are we all still as focused on members as much as I recall we were back then?

The introduction of TPO, TPR and PPF has undoubtedly been positive for the wider system but it has also contributed to a much more intense workload for all of us. However, with that increased pressure comes opportunity and today's pension industry is, to me, a much more inclusive positive place for equality, diversity and inclusion; young people not having to wait to fill dead men's shoes, a variety of roles and jobs that didn't previously exist, space for creativity and communication – Pension Awareness Week in the 90s was in the month before you were due to retire and you were told what you would get, end of! Increased use of technology, animation explaining climate impact and pensions anyone, alongside sophisticated admin, investment, and fund management all make today's industry such a positive force for good.



## Industry reflections: Geraldine Brassett

Anyone who knows me well will know that I have quite a low boredom threshold (should I be admitting this is print?). But that is why I have enjoyed my career in pensions, because it is constantly changing.

I have written a few articles in my time, and this has been one of the hardest. Why? Because there has been so much change that deciding where to focus has been difficult. Legislation felt like an obvious place to start however, whilst this has contributed to change, I am not sure it has been the only driver.

From my perspective the demand for improved member outcomes and engagement has been the catalyst for many of the changes in administration.

In response, we have moved from prioritising inputs to measuring service on outputs and stakeholder impacts. Auto-enrolment has resulted in more consumers saving for a pension, driving the greater need for administrators to help members understand, value and access their pensions savings in a way that works for them.

Over recent years however, the pensions administration industry has

➤ **Geraldine Brassett chairs the industry-wide GMP Equalisation Working Group and the PASA GMP guidance working group, as well as being a member of the PASA Pensions Dashboard Working Group. She is currently client relationship director within Capita's Pension Pillar**

had to work hard to get the balance right between meeting the needs of members and delivering the best outcomes cost effectively. This has been a rollercoaster journey that hasn't always delivered the right outcomes, but this is changing with a move away from measuring quality only based on the timeliness of service to the introduction of a balanced scorecard approach to service measurement including member feedback.

Changed (and still changing) expectations means members now want information more quickly and for it to be delivered in a way that works for them – not easy to achieve as we are not a 'one-size-fits-all' industry. This has led to many providers re-defining operating models with greater reliance on digital delivery, the introduction of specialist contact centres and teams dedicated to an ever-increasing volume of project work.

But how could I write about approaches to delivery and not mention the impact of Covid, which was a game-changer for so many. The speed with which providers responded was impressive (and something to be proud of) with pensioners continuing to be paid and key transactions being processed whilst we moved to home-working. It also showed us however, how we can no longer rely on our long-standing approaches to working with members. For example, online identity verification and the need to communicate digitally (but securely) all took on a new importance, accelerating

change that would inevitably have come.

Another legacy of Covid is increased competition in our labour market with most organisations still supporting home working, many on a full-time basis. There is evidence that we are heading for, if not already experiencing, a capacity crunch. So, at a time when we need to encourage more people to have a career in pensions administration could we hand on heart say the culture has changed? The answer is yes, and for the better. The opportunities to diversify have never been greater and, from my perspective, administration is now recognised as a profession in its own right and of equal value to other advisers – something that has not always been the case. You don't need to go back many years for a time when administration did not feature highly (if at all) on some trustee agendas but now many trustee boards have sub-groups committed to administration and member engagement and the administrator is part of strategic discussions. We need to continue to work hard however to change perceptions and ensure that we provide skills that are transferable equipping our teams to deal with our ever-changing landscape.

Has it been fun? Mostly. Would I choose the same career again? Definitely. Is there still a lot to do? Unquestionably. Have things changed for the better? Yes. But we can still do so much more to deliver real engagement and the best member experience and stakeholder outcomes that we can – boring it won't be!





## Industry reflections: Roger Cobley

**A**fter taking A-levels, I left school and got a job as an actuarial student with an insurance company. On my first working day I was assigned to the pensions department and I have been working in pensions ever since.

In those early days some well-established companies and public-sector employers already operated a pension scheme for their employees. Employers were allowed to require employees to join and to contribute to the scheme as a condition of service. Benefits were often of a generous DB type. There was no requirement to provide any dependants' benefits although some companies provided widows', but rarely widowers', pensions. There was no guaranteed inflation protection on benefits in deferment or payment, and no rights to any benefit for those who left service, apart from a refund of employee contributions. In all of those areas significant changes have subsequently been made in terms of accrued rights, dependants' benefits and some inflation protection, and I welcome those changes.

In those early days in my working life many other companies did not provide any pension benefits at all, so many workers had to rely solely on the state pension in their retirement. Recognising that this would lead to impoverishment for many retirees, politicians began to think seriously about significantly increasing the state pension itself or alternatively adding a layer of earnings related state pension. Various designs were proposed for increasing the state pension but strong resistance was met from the insurance companies to such an enlarged state pension as they saw this as squeezing their opportunity for new business.

Eventually this dispute was settled by the dreadful compromise of "contracting

### ➤ Roger Cobley has had a long career in pensions in many different roles, including chairman of Stamford Associates, president of the PMI and chairman of the Independent Pension Trustee Group

out" of the second layer of state pension. It is rumoured that the insurance companies, represented by the powerful Life Offices Association, threatened to cease to invest in government issued gilts to force the government to back down and to agree to the compromise.

I was then, and am still to this day, totally opposed to the concept of contracting out and in my then role as a consultant I strongly advised my clients to "contract in" despite the apparent (but illusory) positive financial terms offered in the short term to sponsoring companies to bribe them to contract out. It took another three decades or more to put this right and we are still suffering the consequences.

Another mistake that was made was to take away the company's right to enforce scheme membership and allow employees not to take advantage of membership of company pension schemes which in some cases has left nearly a generation of employees with a significant lack of pension benefits.

Subsequently we had the 'Maxwell scandal' with employees losing their rights to pension benefits. Changes were clearly needed to avoid any repeat and the result is rightly a much tougher line on members' rights and protections, but a necessary increase in red tape and regulation. It led to the establishment of the Pensions Protection Fund and the introduction of The Pensions Regulator.

By the turn of the century and following far too much political interference from both sides it was becoming clear that a complete rethink of pension provision was required. The

Pensions Commission was established, independent and free from short-term political influence and very successful. Its recommendations were accepted in the main and have led to a vast improvement in membership of company pension schemes through auto-enrolment; however, there remains the problem of contribution levels being too low and the likelihood of insufficient pension provision for many. With the benefit of hindsight it would have been better to have established from the outset a schedule of small contribution increases.

The introduction of the pension dashboard may serve to give people a timely reminder of the need for higher contributions but it will be difficult to achieve much in the next few years.

The taxation of pension arrangements is a serious and multi-faceted problem. For far too long it has suffered from political interference. The political time frame is a maximum of five years whereas pension provision is very long term. The taxation problem needs to be resolved by an independent commission, or similar body, although this looks unlikely in the near term.

Likewise we still have not resolved the problem of the lack of pension benefits for the self-employed which will come back to haunt us in the future. Sadly I cannot see any activity in this area in the near term.

So, although there have been many changes in the pensions landscape during my working lifetime, some good and some bad, there remains much to be done yet to improve matters. I will watch developments with great interest.



## Industry reflections: Dawid Konotey-Ahulu

In 1987, I qualified as a junior barrister of Lincoln's Inn. I was all set for a lifelong career at the bar, when the whole thing came to a juddering halt. Interviewing for tenancy (the bar's equivalent of a job) at a prestigious set of chambers in Middle Temple, the panel of high-flying lawyers informed me that although they thought I would fit in well enough, there was a tiny problem. They had just taken on a Black tenant and they simply didn't feel able to do so again. At least, not quite so soon. I walked up Chancery Lane, turn right and found myself in the City of London where they were less fussy about these things.

For a while, I worked as an in-house lawyer at various banks. In November 1991 and at the tender age of 29, I found at NatWest Capital Markets responsible for unravelling the fraudulent mess left by the media tycoon, Robert Maxwell, who had, in plain sight, plundered the Mirror Group's pension fund. Part of Maxwell's cunning plan for self-enrichment involved entering into derivative transactions, which were then transferred between a tangled network of his companies. It was all very complicated, but the net result was that NatWest found itself facing off to an insolvent Maxwell Group subsidiary with no recourse to the debt owed. Maxwell himself, of course, was by this point out of the picture having fallen off his yacht earlier that month.

By 1995, I was working as a fully-fledged investment banker structuring derivatives for corporates to help manage their borrowing costs. One afternoon, I received a call from the treasurer of a large manufacturing company. He had a clear view on the direction of US interest rates and he

➤ **Dawid Konotey-Ahulu is co-founder at Redington, Mallowstreet and 10000BlackInterns. He began his career as a barrister and then became an investment banker, before, in 2006, moving over to advising large institutional pension funds and insurance companies**

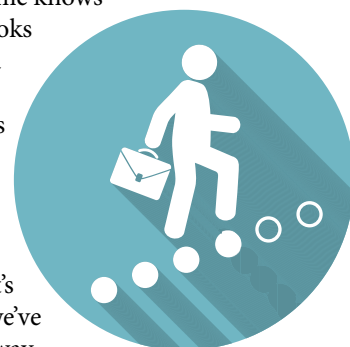
wanted to subsidise his borrowing costs using financial instruments to bet against market expectations. It was my role to provide such investment products and so I obliged. The way the transaction worked, the corporate would pay a much-reduced borrowing rate (per cent) unless the treasurer's market predictions turned out to be wrong – in which case they would pay a significantly higher rate than the market rate of 10 per cent. This was a commonplace transaction in the mid-90s and many run-of-the-mill corporations implemented them – with mixed results. As it turned out, the treasurer's view was completely wrong and he had to unwind the transaction a few months later at great expense. This possibility had been explained to him in great detail before the transaction, but he was insistent he knew something the market did not.

By 2003, I was at Merrill Lynch in the derivatives group. Back then, defined benefit pension funds didn't manage asset and liability volatility in any meaningful way. The traditional actuarial approach was to forecast asset returns which, if they turned out to be overly optimistic (they frequently were), could always be adjusted in subsequent years. There was no requirement for sponsoring corporates to hedge their liabilities or to make payments into the pension fund to repair the mark-to-market pension deficit. Then, in 2001, a

new accounting rule came into force. FRS 17 required corporations to make good their pension deficits, often at the expense of other activities eg building a new factory or opening a new store. It seemed to me that pension funds needed to hedge their liabilities if they were to have any hope of managing the extreme volatility that plagued their assets and liabilities. In December 2003, the game changed with the first full hedge by a pension fund using derivatives. Now it's the norm; in 2003 it was revolutionary.

Thirty years after I started in this industry, there is a genuine desire to fix the problem of underrepresentation, not just for race but across the spectrum of people who don't have a seat at the table. Corporate treasurers no longer bet the farm on speculative views about the direction of interest rates, and pension funds, by and large, are in far better shape than they were. Every trustee of every defined benefit pension scheme knows what good looks like and has a grasp of the key principles of risk management and good governance.

None of it's perfect, but we've come a long way.





### Summary

- Financial wellbeing is about feeling in control of your finances.
- Employers are increasingly aware of financial wellbeing and its relationship to mental health.
- Pension schemes are well placed to help members with financial wellbeing.

## From chaos to control

### ► Maggie Williams considers what the industry can do to improve people's financial wellbeing, particularly during this cost-of-living crisis

The Money and Pensions Service defines financial wellbeing as “feeling secure and in control [of money]. It is knowing that you can pay the bills today, can deal with the unexpected and are on track for a healthy financial future”.

If feeling secure and in control of money is a key factor in financial wellbeing, then the UK is clearly struggling. Recent figures from Aegon finds that 63 per cent of adults are worried about their finances, compared to just 36 per cent at the height of the pandemic.

With inflation soaring over 10 per cent and driving a cost-of-living crisis, Aegon's figures are hardly surprising. But poor financial wellbeing is not just a product of Covid and high prices. Underlying long-term trends show that the UK's struggles with financial confidence and control of money is far more ingrained.

In 2018, the Organisation for Economic Co-operation and Development (OECD) put the UK 15th out of its 29 nations for financial wellbeing, lagging behind countries such as France and Germany.

Debt management charity StepChange says that 30 per cent of adults are struggling with debt, equating to 15 million people. Separate research from LCP found that 32 per cent of respondents have less than a month's

savings to fall back on, should they lose their income for any reason.

Crucially, LCP's research also found that it is not just low earners who are struggling with their financial wellbeing. More affluent employees also said that they were worried about money.

“You can have low financial control if you're uncomfortable with numbers, don't have a good sense of where your income goes every month or how much debt you're in or what savings you have,” explains Penfold co-founder, Pete Hykin. “Similarly, whatever your income or net worth, you could have high financial control if you budget effectively, and track your spending, savings and debt.”

But many people lack basic financial literacy skills such as budgeting. For example, 44 per cent of adults said they would be in better financial shape if they had been taught money management skills such as budgeting, according to Centre for Social Justice research.

#### Employers are waking up to financial wellbeing

Businesses are increasingly aware of the relationship between employee wellbeing, including financial wellbeing, and business productivity.

“Organisations are looking at financial wellbeing as one pillar of a wider strategy, including mental and physical health as well,” says Wealth at Work director, Jonathan Watts-Lay. “The

pillars fit closely together and financial wellbeing can have a significant effect on mental wellbeing. For example, if people are worried about money they will experience anxiety and stress, which leads to lower productivity and time off work.”

“From a business perspective, there is no legislation to force employers to support financial wellbeing,” says Buck principal and DC proposition lead, John Yates. “But employers do care about their employees, as a part of their social contract.

“Pensions and benefits are also probably the biggest people cost for businesses after pay. Employers want to make sure that their spending is aligned to the needs of their people – and that they can benefit from it.”

“Post-pandemic we've also seen the emergence of the great resignation,” adds Hykin. “There is now more competition among employers for the best talent and, as a result, they are trying to offer the best financial wellbeing benefits to attract and retain these individuals.”

#### Is financial wellbeing a pensions problem?

Improving financial wellbeing might be a priority for employers and an important need for employees – but how does it relate to pensions?

“Financial wellbeing is a good fit with pension savings,” says Pensions and



with pension savings,” says Pensions and Lifetime Savings Association deputy director of policy, Joe Dabrowski. “We want to help people better understand their finances more generally, and pensions as a part of that, to help with retirement planning. It also means that if people are able to manage their budgets effectively, build up resilience and reduce debts, they will be better positioned to save for later life as well.”

Both the immediate cost-of-living challenges and more ingrained trends such as low financial literacy and financial control have an impact on people’s ability to save into pensions.

The most obvious short-term risks are that employees are no longer able to afford to pay into their pension, and that older employees use their pension savings to help them weather the current crisis – with potential financial knock-on effects for the rest of their lives.

In August, Barnett Waddingham found that 7 per cent of scheme members say they would reduce pension savings in response to the cost of living crisis, increasing to 18 per cent among 18 to 34 year olds.

Barnett Waddingham head of DC, Mark Fitcher, says that employers can help by “providing stronger financial guidance for employees and encouraging them to think twice before making knee-jerk decisions with their finances.”

He also suggests that, from a pensions perspective, employers could increase employer contributions to workplace schemes and “even considering continuing to pay employee contributions if an individual needs to pause contributions temporarily”.

There has also been a surge in older workers accessing pensions savings to make ends meet – as many as one in seven (13 per cent) according to Canada Life. Record numbers of over-50s became economically inactive (ie not working or looking for a job) in 2021, with 28 per cent saying they had retired.

While some early retirees may

have already hit the pensions lifetime allowance or been long-term members of a defined benefit scheme, that may not be the case for all.

Watts-Lay argues that effective support to help employees understand the longer-term implications of retiring early or accessing their pension pots is an important element of financial wellbeing. “Employees approaching retirement need support with all aspects of their wellbeing, including understanding whether their pension will last through retirement if they leave the workforce in their 50s.”

## “There has been a surge in older workers accessing pensions savings to make ends meet”

### Pensions as a starting point for financial wellbeing

Yates adds that pension schemes can also be the starting point for wider workplace conversations about financial wellbeing. “Pensions are the natural place to start widening the scope of financial wellbeing. Some employers have already made a start by, for example, addressing annual allowance and lifetime allowance issues affecting high earners and offering alternative options to pensions. The next step is to ask: ‘If we can do that for high earners, can we give more savings choice for the rest of the workforce?’”

Although they are relatively new, products such as payroll and ‘sidecar’ savings that help employees to build a financial safety net for everyday needs are another example of how pensions can be used as a starting point for wider financial wellbeing.

Initiatives such as the PLSA’s Retirement Living Standards can also contribute towards financial wellbeing, by helping people understand how much they need to save for retirement over the course of a lifetime. “People need



pensions-related information that gives them confidence that over the course of their career, by putting amounts away consistently, they can save for retirement,” says Dabrowski.

Watts-Lay says that pension schemes are taking more interest in financial wellbeing for their members. “Trustees are increasingly asking us not just to deliver financial education around pensions, but to put that into the context of wider financial wellbeing. That’s a massive step forward and something we haven’t seen in the past.”

“They are recognising that it’s important to look at pensions as a part of people’s wider financial lives, rather than talking about factors like contribution rates in isolation.”

With money worries now affecting the majority of the UK population, and an even grimmer financial outlook ahead, both pension schemes and employers are well placed both to support employees and members sensitively through the current crisis. By offering help with financial education and wider options for accessible saving and managing day-to-day costs, schemes can help members build the skills and resilience they need to feel secure about their finances and save for retirement as and when calmer waters return.

**Written by Maggie Williams, a freelance journalist**



### Summary

- The menopause typically occurs between ages 45-55 and lasts an average of seven years but can be as long as 14 years.
- Women suffering from severe menopausal symptoms may quit work or reduce their hours as a result, negatively impacting their pension savings.
- Raising awareness and overcoming stigmas to discuss menopause in the workplace, improving sick policies, providing flexible work and training line managers on the subject have all been suggested as ways to help women in the workplace during the menopause.

# Menopause: No longer keeping quiet and invisible

**L**ook around the workplace. Have you noticed the number of middle-aged women there? Maybe there are fewer there than you'd expect, compared to the number of middle-aged men. Or maybe you just hadn't paid that much attention to them before, as it's long been claimed that middle-aged women are ignored or overlooked in public and social settings.

There may be scepticism as to how much truth there is to 'invisible woman syndrome', but arguably one such evidence of it is the lack of fanfare around Bupa's research finding that almost a million middle-aged UK women have disappeared from the workforce due to experiencing menopausal symptoms.

According to the NHS, the menopause is when a woman's periods stop due to lower hormone levels, with perimenopause being the experience of symptoms before periods stop. Menopause and perimenopause can

## ➤ Laura Blows explores how the menopause can negatively impact women's retirement savings and the efforts employers can take to improve this situation

cause effects like anxiety, mood swings, brain fog, hot flushes and irregular periods, potentially having a significant impact on all aspects of life. Trans, intersex, and some non-binary people, along with people experiencing certain medical conditions/treatment, may also experience the menopause or menopausal symptoms.

Some women may breeze through menopause with only mild symptoms, while for others its impact can be severe. For instance, recent Fawcett Society research finds 77 per cent of women experience one or more symptoms they describe as 'very difficult'. Sixty-nine per cent say they experience difficulties with anxiety or depression due to menopause, 84 per cent experience trouble sleeping

and 73 per cent experience brain fog.

Of course, correlation does not imply causation, but Legal & General co-head of defined contribution, Rita Butler-Jones, notes that there is an increased suicide rate for menopausal-aged women. *[2020 data from the Office for National Statistics finds female suicide rates peaked at 6.7 per 100,000 females at ages 45-64].*

The menopausal transition most often begins between ages 45 and 55, the National Institute on Aging states, and usually lasts about seven years but can be as long as 14 years. Meanwhile, the government's Women and Equalities Committee (WEC) reports that the average age of menopause is 51, with perimenopause often starting years earlier.

### Effect on work

The WEC adds that there are 4.5 million UK women aged 50-64 currently in employment, “emphasising the scale of the problem facing individuals, the economy and society”.

“The working life of women has changed dramatically in just one single generation”, workplace health digital platform, Peppy, states on its website. “This means that 71 per cent of those going through menopause will be at work. They will be facing work problems at the same time as they’re experiencing perimenopause, which can last for years in some cases.”

A 2019 survey of 1,000 women by Health and Her estimated that menopause costs the UK economy 14 million working days per year, in terms of time spent alleviating menopause symptoms, which equates to an approximate £1.8 billion GDP loss to the UK economy.

April 2022 research from Canada Life also finds that 27 per cent of working women aged 45-65 who have been through the menopause subsequently experienced a ‘negative impact’ on their career.

Meanwhile, Fawcett Society’s research reveals that 44 per cent of women said their ability to work had been affected, comprising 18 per cent of women who said that their symptoms currently affected their ability to do their jobs, and 26 per cent in the past, while 61 per cent said that they had lost motivation at work due to their symptoms.

Bupa’s submission to the WEC, highlighting its 2021 research, states those that take a long-term absence from work to manage menopausal symptoms take an average of 32 weeks leave, “resulting in damage to individuals’ careers and a huge loss of productivity to a business”.

In July 2022, the government’s response to the independent report, *Menopause and the Workplace: How to enable fulfilling working lives*, highlights

findings by the UCL Social Research Institute that the onset of menopause before age 45 reduces months spent in work by 9 percentage points (around 4 months’ employment) for women during their early 50s. The study also finds that the more menopausal symptoms faced at age 50, the lower the employment and full-time employment rates.

These findings are echoed by the WEC’s own research, which reveals that women experiencing at least one problematic menopausal symptom are 43 per cent more likely to have left their jobs by the age of 55 than those experiencing no severe symptoms.

## World Menopause Day: 18 October

### Pension savings

“Given women’s typical ages at menopause, they will potentially be at the peak of their work-based skillset, their experience and their earning potential. Right at the top of when they should be capitalising on the investment they’ve made in themselves and their career, they have the menopause hit them, which means they might consider giving up work,” Phoenix Group group human resources director, Sara Thompson, says.

Some individuals may be largely unaffected by the menopause from a financial point of view, Canada Life technical director, Andrew Tully, says, but for others the menopause can cause financial hardship.

“Women may need to take some time off work due to their symptoms while some of the hardest affected may reduce working hours, take early retirement or stop working. Others may be put off going for a promotion. For those who are younger when the menopause starts there may be a great financial impact.

“People may miss out on valuable employer pension contributions as well as building up qualification for their

state pension. The major problem is for women who suffer with menopause symptoms and who have already had time out of the workforce to care for young children or elderly relatives – this can exacerbate already lower savings. This can have a hugely negative impact on the retirement income women can expect to receive,” he explains.

Therefore, the menopause, along with factors such as maternity leave and career breaks, can contribute to the gender pensions gap. In June 2022, Legal & General research finds that the initial gender pensions gap of 16 per cent widens as women reach their 40s, “accelerating to 31 per cent as the impact of career breaks and unequal caring responsibilities begin to take effect. By the time people can take their tax-free cash at 55, the gap is over 50 per cent and deteriorates further to 55 per cent by retirement”.

The pensions industry needs to “build awareness for women to really understand the impact [*on their pension savings*] of leaving the workplace early”, Butler-Jones says. “If we’re supporting women during the menopause, then they shouldn’t have to leave work, and therefore, there shouldn’t be this knock-on impact on their pensions.”

### Overcoming stigma

So, what can be done to help women remain in the workforce during these challenging years?

Stigma, a lack of support and discrimination play key roles in forcing menopausal employees out of the workplace, the WEC says.

Its survey of over 2,000 women finds 67 per cent report ‘a loss of confidence’ as a result of menopausal symptoms and 70 per cent ‘increased stress’.

Despite this, the survey reveals that only 12 per cent of respondents sought any workplace adjustments, with a quarter citing their worries about an employers’ reaction as their reason for not doing so.

The taboo around menopause extends to sick notes. The Fawcett Society's research finds that 26 per cent of women who have been employed during the menopause had taken time off work due to their symptoms, but just 30 per cent of them gave menopause as the main reason on their sick note. Working class women were even less likely to cite the real reason.

Meanwhile, Canada Life's research finds that the biggest impact women report experiencing was feeling undervalued (27 per cent), with a further 20 per cent saying it caused negative feelings with their colleagues.

Over 40 per cent of Canada Life's respondents report feeling unsupported by their employer during the menopause and 42 per cent felt unable to talk to their line manager about their menopause experience. "This lack of support has led to 11 per cent of women to consider leaving their job," Canada Life adds.

Menopause workplace training provider, Henpicked, states on its website that sometimes women worry that their manager won't understand what they're going through, especially if the line manager is younger or male, or if there are cultural barriers where talking about menopause in the workplace or with someone of a different gender is not the norm.

However, it notes that there are some very supportive young male managers and equally there are some female managers of menopausal age who aren't as supportive, as "it's more about understanding and knowledge".

Thompson highlights how at Phoenix Group, menopause discussions as not just generated from HR or as 'women's talk', but driven "by male leaders as well and our male CEO [Andy Briggs] is very comfortable talking about these things, being the UK government's Business Champion for Older Workers and the Ageing Society".

Commenting at the time on the government's response to the *Menopause*

and the *Workplace* report, Briggs said: "With one in four women considering giving up work because of menopause symptoms, there is a clear business case for employers, government, and society to come together to support those going through the menopause to thrive in the workplace.

"The government needs to continue to send a strong signal that it is prioritising support for millions of individuals going through menopause, as well as breaking down taboos and normalising this important issue."

### Actions

Efforts are underway to achieve this.

For example, the government has recently appointed Dame Lesley Regan as the first-ever Women's Health Ambassador for England, to raise the profile of women's health and increase awareness of 'taboo' topics.

The government has also announced that one or more Menopause Employment Champions will be appointed by the Minister for Employment "to give a voice to menopausal women, promoting their economic contribution, and working

with employers to keep people experiencing menopause symptoms in work and progressing".

The WEC is calling for amending the Equality Act to introduce menopause as a protected characteristic as with pregnancy or maternity, and to include a duty for employers to provide reasonable adjustments for menopausal employees.

However, the government rejected this in its response to the *Menopause and the Workplace* paper, stating that further changes are not needed as sex, age and disability are already protected characteristics.

The WEC also recommends that the government pilot a 'menopause leave' policy within a public-sector employer, and publish an evaluation, including proposals for further rollout, within 12 months of the scheme's commencement.

### Employer role

In the meantime, employers can make a difference now.

A "quick win" Butler-Jones highlights, is the importance of workplaces having a menopause policy.

"We want to really try and influence employers to better understand the need

### 📌 The Menopause

Menopause is when periods stop due to lower hormone levels. Perimenopause is when you have symptoms before your periods have stopped. This usually happens between the ages of 45 and 55.

Symptoms include:

- Mood changes, such as anxiety, mood swings and low self-esteem
- Problems with memory or concentration (brain fog)
- Hot flushes
- Night sweats and difficulty sleeping
- Heart palpitations
- Headaches and migraines
- Muscle aches and joint pains
- Changed body shape and weight gain
- Skin changes including dry and itchy skin
- Reduced sex drive
- Vaginal dryness
- Recurrent urinary tract infections (UTIs)

[Source: NHS]

for that,” she says, “and better outline the cost to the average company of absence of female workforce through menopause-related symptoms versus the cost of implementing a menopause policy.”

The *Menopause and the Workplace* paper highlights the importance of open conversations about the menopause in the workplace to help break down the taboo and normalise the issue, raise awareness and combat bias, along with training line managers, and signposting to resources for further help.

It also recommended returner programmes to include and highlight post-menopausal opportunities, as well as post-maternity.

Canada Life’s research finds workplace policies that would help working menopausal women to feel better supported include improved sick leave policy for menopause symptoms (26 per cent), flexible working rights (23 per cent) and access to support such as virtual GPs and mental health counselling (17 per cent).

About a fifth of respondents say they would be more likely to stay with their current employer if they felt better supported with the menopause and symptoms experienced.

In October 2021, Peppy research of 500 HR professionals [as reported in *Personnel Today*] found that 54 per cent of UK businesses do not currently have any dedicated menopause support in place within their organisation.

However, a fifth of employers were planning to introduce support within the next 12 months, which would bring the total to 67 per cent.

Of those offering support, it said 46 per cent provided counselling and support with sleep and anxiety via a general benefits platform, such as an employee assistance programme, while 39 per cent offered general menopause support from health and wellbeing benefits and 32 per cent ran education and/or events specifically around menopause.

Furthermore, 29 per cent offered dedicated menopause support from a menopause specialist healthcare professional, and 26 per cent offered line manager training specifically around menopause.

### Awareness increasing

While “there is certainly more to do,” now that there are menopause advocates and awareness training to all genders “I think is a good step forward”, Thompson says. “Even five years ago, we may not have been having menopause conversations, and certainly not 10 years ago.”

The reason for this, she suggests, is that “increasingly organisations are being much more flexible and sensitive in thinking about who their colleagues are, to be more inclusive, along with an

increased focus on physical and financial wellbeing”.

Thompson states that approximately 400,000 women every year go through the menopause, “so there’s a clear business case to support women to feel they can stay in the workplace for longer”.

As WEC chair, MP Caroline Nokes, said in July: “Menopause is inevitable. The steady haemorrhage of talented women from our workforce, however, is not. Stigma, shame and dismissive cultures can, and must, be dismantled. It is imperative that we build workplaces – and a society – which not only supports those going through the menopause, but encourages some of the most experienced and skilled workers in our economy to thrive.”

 Written by Laura Blows





# GMPF: Going from strength to strength

**✓ The Greater Manchester Pension Fund (GMPF) has been working hard to improve its technology, communication, value for money for its members and ESG – and has seen solid results. Its director of pensions, Sandra Stewart, tells Francesca Fabrizi what has driven those changes and what is next for the fund**

**G**reater Manchester Pension Fund (GMPF) is the largest fund in the statutory Local Government Pension Scheme (LGPS), both in terms of assets under management (approximately £30 billion) and membership numbers. It is one of 88 pension funds that make up the LGPS in England and Wales. These funds are run by administering authorities, with Tameside Metropolitan Borough Council being the administering authority for GMPF.

Employees of all local and joint authorities in the Greater Manchester area and many other public bodies have access to the LGPS. GMPF also provides the pension service for those members employed by the National Probation Service who are eligible to join the LGPS. It currently looks after over 400,000 pension accounts and have over 600 employers who have contributing members.

The LGPS is a defined benefit pension scheme. Benefits up to 31 March 2014 are worked out on a final salary basis, and benefits from 1 April 2014 are on a career average basis. It is also a funded scheme, whereby contributions are invested to fund current and future pension promises.

## What are your aims and priorities going forward?

Our mission is to provide pensions, giving our members a secure income and peace of mind when they retire. We have eight strategic objectives linked to this mission around, which we build our business plans each year.

At present, there are three main priorities for us. The first is around technology and ensuring we maximise its use to benefit all our members, safely and securely. We have significantly enhanced our IT infrastructure and software applications over the past few years, including creating a new website, installing a new contact centre, and developing our online member platform, My Pension. We want to maximise what we can do with technology to provide the best customer experience possible.

The second is around good governance and stewardship. Looking after our members' pensions well and being a responsible investor is really important to us. We strive to make decisions and create policies that reflect our commitment to investing in the best interests of all our stakeholders and wider society. Last year, GMPF was one of the first funds to be approved as a signatory to the Financial Reporting Council's

UK Stewardship Code 2020. This code sets high standards for those investing and looking after money on behalf of UK savers and pensioners. We want to build on this and improve our status as one of the world's most responsible asset allocators.

The third priority is around value for money, ensuring our fund is affordable for our employers and best value for all our stakeholders. This year is a valuation year for LGPS funds in England and Wales, so we will be updating our Funding Strategy Statement and working with our actuary and employers, focusing on affordability and long-term stability.

## What have been your biggest challenges, if any, in recent years and how have you overcome them?

The coronavirus pandemic presented some big challenges for us, particularly within the administration team. It has caused volatility within our workloads and has driven a lot of change in a short space of time. Like everyone, we have had to adapt to new ways of working, and our approach has been to embrace the changes and to look to do things differently. We have tried to do this with technology but have also spent time reassessing how we should deliver our service going forward, identifying the changes we need to make to our resources and team structure.

There have also been challenges within the area of investments, not least a greater interest in environmental, social and governance matters and in how we are investing for the energy transition.

Our approach to overcoming all

challenges is to try to balance stability with the need to change. We have tried to create a culture whereby making changes to meet the current or next challenge becomes the norm. We have a strong internal governance structure, a dedicated team of colleagues and key partners who share our ambitions, all of which have helped us to meet, overcome or work towards overcoming many of the challenges faced.

**The fund was recently shortlisted for a Pensions Age Award in recognition of the work you have done in the areas of both communication and administration – can you tell us a little about what you have done of significance in these areas?**

One of our key projects over the past few years has been to maximise the use and functionality of our online member portal, My Pension. We had already done much of the groundwork for this project when the pandemic broke, but it then became a greater priority as we wanted to ensure our members could exchange documents with us electronically during lockdown. In 2020, we created and launched a new website, as we believed it was important for the website to be as engaging and accessible as possible when encouraging members to go online. We also wanted to ensure they could find all the help and support they needed easily. This included creating several online videos and embedding an accessibility toolbar for anyone needing extra support. Since then, we have been supporting our members to register and engage with their pension, and have been moving all our key processes online, so that members no longer need to receive or send information to us by post.

The onset of the pandemic also completely changed overnight our approach to providing members with face-to-face support. All our member events moved online and were delivered virtually, creating lots of benefits. We have expanded the range of sessions we

deliver and how we deliver them, recently introducing a series of ‘bite-size’ sessions providing an introductory look at a topic to sit alongside the more in-depth sessions.

Another project where work was accelerated due to the pandemic was changing how we carry out existence checks for our pensioners that live overseas. We have introduced new options for members to choose from to complete these checks with us. Members can either book a video call with a member of our team, complete a declaration through their My Pension account, use a mobile app using biometric recognition or complete a paper form, and they can choose whichever option is easiest for them.

Last year we implemented a new contact centre system for calls across our Customer Services and Employer Liaison teams. The new contact centre integrates with Microsoft Teams and provides new functionality, such as callers being able to request a call back rather than waiting in a queue. About 8 per cent of callers request a call back and based on the statistics available so far, this new system has led to an increase in the number of calls that we can answer each day of around 10 per cent.

**Has the move to online processing been a success?**

Most definitely. Case turnaround times have reduced significantly for those processes that are online. We’ve also received some great feedback from members, including suggestions that are helping to improve the processes going forward.



**What’s next?**

We have lots of work still to do to improve our online processes and make use of some new software functionality that has recently become available. All the new technology and systems we have introduced contain lots of management information. We see real strength in a data driven approach and are striving to improve how we analyse and use that data for decision making. This is one area where we still have plenty of work ahead of us. We are also getting prepared for the pensions dashboards, upgrading our payments processes and enhancing our customer experience programme of work. We also recognise that the world of digital services is advancing at a rapid pace, and we need to ensure no one is left behind.

**Written by Francesca Fabrizi**





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# Tidal wave



## Summary

- Three-quarters of UK pension schemes either have, or will have, net-zero plans in place by 2024.
- Extra regulation in response to net-zero ambitions will be introduced this year, but the burden of further compliance with rules will be too much for some smaller schemes.
- A lack of data and appropriate metrics is holding back some net-zero plans.

## Increasing numbers of schemes are set to chase net-zero goals, but their pursuit is far from straightforward

Going net zero has become de rigeur for UK pension schemes in 2022. Big beasts such as The Marks & Spencer Pension Scheme and the Royal Mail Pension Plan have pledged to have sufficiently green portfolios by 2040 and 2050, respectively. Behind the headlines, the Pensions and Lifetime Savings Association (PLSA) released results of a

survey in May stating that three quarters of UK pension schemes either have, or will have, net-zero plans in place by 2024.

“The journey to net zero is common to all of us, not just UK pension schemes,” says Schroders head of UK sustainability, Claire Glennon. “The reality is that we now have over 130 countries and more than 90 per cent of the world’s GDP associated with a net-

zero target. This momentum has turned decarbonisation into the investment theme of the century.”

This tidal wave of change is now so strong that very few trustees are not mindful of its importance. The only segments of pension provision not paying it much attention are DB funds who are close to executing the final stages of their endgames. In their case, careful monitoring of greenhouse gas (GHG) emissions become impractical distractions, rather than worthy pursuits.

“We find the larger schemes in both DC and DB are focused on net zero,” says LCP partner and lead investment adviser, Dan Mikulskis. “Even a DB scheme with a 10-year plan to endgame will often find net zero relevant due to the level of change and impact likely happening over the next decade, and the fact that the corporate bond portfolio – which DB schemes tend to invest more in towards their endgame – feature higher exposures to global utility companies, who are often running and expanding their fleets of coal-fired power stations and hence are among the most critical companies for net zero.”

### Regulation-led?

From October, new measures from the Department for Work and Pensions (DWP) to supposedly “propel” pension net-zero journeys will add further regulatory demands on scheme trustees. The government estimates that more than 80 per cent of UK pension scheme members will therefore be invested in schemes who will be required to publish how their investments support the Paris

Agreement climate goal of limiting global warming to 1.5 degrees Celsius above pre-industrial levels.

The new rules, added to a pile of already burdensome red tape, could, conversely, accelerate net-zero objectives, suggests Mercer partner and director of consulting, Brian Henderson. “Once you get past the £1 billion-plus funds to the next layer down, there will come a point

**“We now have over 130 countries and more than 90 per cent of the world’s GDP associated with a net-zero target. This momentum has turned decarbonisation into the investment theme of the century”**

where the governance of doing all this is too much,” predicts Henderson. “And that’s where we’ll start to see even more consolidation in the DC space.” Smaller schemes who will simply throw in the towel and go into master trusts, will then place their members into giant schemes that will no doubt already have firm net-zero aspirations in place.

For Mikulskis, additional regulation in this area is merely a reflection of popular opinion. “The interesting thing about net zero is that it is not really regulation-led,” he argues. “TCFD [*the Taskforce on Climate-related Financial Disclosures*] is regulation, but that is

distinctly different to net zero. Net zero is really an entirely voluntary, bottom-up industry initiative, which is one of the things that makes it powerful.”

### The data gap

Despite groundswell support and subsequent scheme action, there are some clear issues involved in decarbonisation, the most obvious of which is a lack of appropriate data. “If you’re going to put a target date in then, you need the data to be able to draw a line in the sand,” says Henderson. “And if you don’t have all the data, then you’re guessing really.”

This gap has led to questions over which investments schemes are actually assessing for their net-zero targets. In some cases, schemes may end up only focusing on a narrow segment of a portfolio and ignoring the “hard stuff”, as Henderson puts it, such as government bonds. As Mikulskis explains, in the context of most of the net-zero frameworks, sovereign debt is often placed out of scope due to the need to hold government bonds for hedging purposes and the limited engagement impact that investors can have in practice. “But if a large part of a portfolio is held in gilts this feels unsatisfactory,” he admits.

Other asset classes bring different difficulties. In private markets, for example, the right data to enable monitoring of a net-zero strategies is not as commonly available, although there are some notable bright spots. “For example, in real estate and infrastructure, where we have found coverage and data

to be surprisingly reasonable in some cases,” says Mikulskis.

Mikulskis also highlights that there is a good argument that emerging market assets ought not to be held to the same strict net-zero standards as those in developed markets. When twinned with the fact that some large economies clearly falling well short of international net-zero targets, trustees may be faced with a decision between limiting their opportunity set or softening their portfolio targets.

Asset assessment has now been further complicated by the inclusion of Scope 3 emissions, which widen the carbon emission net considerably, to the say the least. “Very few trustees or pension schemes will have access to their Scope 3 emissions,” says Henderson. He is far from alone in his concerns. At the PLSA Investment Conference in May this year, AXA Investment Managers senior solutions strategist, Bruno Bamberger, warned that Scope 3 emissions could “blow decarbonisation targets out of the water” in the near future.

It is also clear that some managers are still lagging behind when it comes to the adoption of some of the basic, widely available data frameworks for assessing alignment of companies with net-zero, such as the science-based targets initiative and the Transition Pathway Initiative.

On a more positive note, the general decarbonisation data gap is getting closer to being breached, argues Mikulskis. “There are now several well-established frameworks that pension schemes and

other asset owners can draw on, so they can be confident in getting to a robust, credible and serious plan without needing to reinvent the wheel,” he says. “A year or so ago this was greenfields’ new territory, now it’s pretty well-trodden ground.”

Another encouraging trend born out of decarbonisation efforts has been a push into sustainable investments. A recent institutional investor study by Schroders found that 68 per cent of UK institutions are keen to find new opportunities where they can invest in assets that address energy transition needs across the globe. “This is consistent with the conversations we have been having with clients and a view we support; investment in areas such as renewable infrastructure, thereby supporting the energy transition coupled with the potential for stable inflation-linked returns is proving attractive for both UK pension and insurance investors,” says Glennon.

#### Looking in the right place

In essence, decarbonisation means identifying a point in time by which the net GHG emissions of all companies they are invested in will be zero, with net being the operative word. In May, Sackers published a report called *Getting to net zero: A spotlight on the role of pension trustees*, which says that adopting a net-zero target does not necessarily mean that trustees can only invest in businesses which have achieved “GHG neutrality” themselves. “The key is that the net emissions of the portfolio are

balanced so, in the future, GHG intensive businesses may still be held as long as those emissions can be offset elsewhere by carbon capture, or other emerging technologies.”

This is where having the right metrics becomes crucial. In a case study included in the report, HSBC chief investment officer and pension scheme executive, Brain Kilpatrick, admits finding the correct measuring tools and benchmarks to be a challenge. He reveals that the bank is keeping “an open mind” and pushing managers to report against metrics that are “independent and overseen with academic rigour”.

Glennon concedes the same point, adding that how to report and what to invest in are also challenges. “This is where we as asset managers and fiduciaries of our clients’ money have a responsibility to help and support clients in this transition whilst also help them deliver for their members.”

But perhaps schemes are looking in the wrong place for help, suggests Henderson. “Is the governance and trustee knowledge and understanding of this ever going to be at the level of a climate specialist?” he asks. “I could argue climate is all about energy. Therefore, you need to understand what the new transition of energy looks like.

“Now, is that the job of someone with a BA in finance, or a chemical or mechanical engineer?”

 **Written by Marek Handzel, a freelance journalist**



# What happened to the 'safe haven'?

➤ **Sandra Haurant looks at the latest developments in the bond market and what this means for pension fund portfolios**

## ➤ Summary

- Bonds have traditionally been a low volatility element of a portfolio – the 40 per cent in the classic 60/40 balanced portfolio that acts as a foil to the more volatile equities.
- After more than a decade of stability (and low yields) bond markets have become far less predictable, with yields rising and prices falling.
- For pensions using bonds for liability matching, this is less concerning but those looking for returns could have greater worries.
- The past few years have exacerbated a cyclical issue, as central banks and other big bond buyers stop and turn to selling off instead.
- Bigger picture economic pressure could push default rates up ...
- ... although recession risks are already priced in.
- Bonds will remain a mainstay for pensions, but selectivity and synthetic products may play an increasingly important role.

“Bonds have traditionally been used to not only provide a current income, but also as a kind of defensive ballast to the portfolio where, in periods of volatility, if you had equity selling off or risk assets selling off, typically government bonds would rally,” says Ninety One head of alternative credit, Jeff Boswell. “So you had an offset in the form of an instrument that not

only was providing you with a nice kind of anchor, a steady income base, but then some defensive characteristics as well.”

Aon investment partner, Calum Mackenzie, agrees: “Typically, you’d expect that when equities fall, bonds go up. That’s effectively the basis of the balanced portfolio, the 60/40 traditional portfolio that’s been the bedrock of the investment theory for decades.”

Then things began to change. “With the kind of secular compression seen in government bond yields, where they went to next to nothing, two things happened,” Boswell says. “One was that, in terms of those outcomes that it was providing, it stopped producing much income. Then secondly, as government bond yields collapsed, it left underlying investors more vulnerable to some sort of rates reset, which is exactly what we’re going through now.” And in recent months, we have seen headlines screaming the likes of ‘bond market nightmare’ and ‘crash’ and ‘collapse’. So what happened to the so-called safe haven?

## A long time coming

According to Cheyne Capital portfolio director and head of credit research, Duncan Sankey, a shift in the bond markets is no surprise: “We had 10-plus years of extraordinary and monetary accommodation quantitative easing. It has kept bond yields very, very low – arguably artificially. Consequently, we’ve seen interest rates at very unusually low levels,” he says. “So what we’re

seeing now is degree of normalisation, and it’s been so long since we’ve seen normal rates that this is coming as a bit of a shock, particularly since in some jurisdictions this means a shift from a negative rate position. When you start seeing rates increase, that is absolutely value disruptive. The value of your bond holdings is going to go down.”

Cardano client portfolio manager, Nigel Sillis, adds: “We’ve been accustomed during the past 10 or 15 years to seeing government bond yields that are below the level of inflation, and it seems clear now that the world central banks are determined to use monetary policy much more aggressively, to stave off the risks of inflation escalating further.”

Yields, says Mackenzie, have been driven lower and lower as central banks, pension funds, banks, insurance companies, all piled into the bond market, in something of a buying frenzy. This, combined with low inflation, pushed bond yields to “incredibly low levels where people were willing to lend for 10 years for half a per cent”, he says.

But, although a long time in the making, the shift has been massively exacerbated by more recent events – in particular, he says the global phenomena of: “The double whammy of the re-emergence of inflation and the ending of quantitative easing.” Central banks, rather than buying all the bonds that were being issued, are now allowing their bonds to be sold into the market – which means, in essence, that the biggest buyer

of bonds has now left the room. “Simple supply and demand would say that should reduce the price,” Mackenzie says. “As a result, the bond market is almost behaving like a rubber band – it’s been stretched and stretched and stretched. And now suddenly it has snapped back.”

### No panic for pensions?

“One of the interesting factors for pension schemes investing in bonds is that they’re using the bonds not specifically to generate return, or not with absolute return focus, but to match their liabilities,” says Mackenzie. A retail investor or an endowment fund might look at a year-on-year fall of 33 per cent in index-linked gilts as a disaster, he says, but: “A pension fund might be thinking, OK, my bond portfolio has fallen by a third, but actually my liabilities have fallen by the same or more. So actually, in that context, they’re doing their job as liability-matching assets.”

For those funds using bonds for diversification purposes in a returns-seeking portfolio, though, it’s a different story. “One of the big challenges we’ve had is that the traditional correlation between equities and bonds has increased,” says Mackenzie. That correlation means bonds can’t do their job as a diversifying stabiliser.

### Floating free

According to Cambridge Associates head of European pension practice, Alex Koriath, very few areas of the bond markets that have escaped the recent tumult. “We have seen increases in volatility and falls in market values across bond markets with no shielded safe havens,” says Koriath. One possible exception is the floating rates sphere – which encompasses loans or private credit strategies. “These have not repriced along government bond nominal yield curves, but have nevertheless suffered from spread widening and volatility,” adds Koriath.

“The floating rate loan market, where

the rates reset to reflect underlying interest rates, have been a bit more protected,” agrees Mackenzie. “That’s because it’s the market with the lowest duration, so is the least sensitive to changes in interest rates.” Floating rate loans are likely to have durations of between one and five years, while terms for traditional bonds can be as long as a decade.

## “What we’re seeing now is degree of normalisation, and it’s been so long since we’ve seen normal rates that this is coming as a bit of a shock”

### Default rate risk

When, as with bonds, you effectively lend money as an investment, you want to know you’ll be paid back, and default concerns become all the more pressing when talk of recession is in the air. “The natural question is, ‘what if we go into a recession, are our default rates likely to spike? Are we getting compensated for that?’” says Boswell. “Our answer is that, if we look at balance sheets and leverage levels and debt serviceability, and maturity walls, you know, corporates, and certainly investment grade corporates, are in very robust health.”

Still, the effects of inflation on the economic environment are an important issue, says Sillis. “Every day we are reading about the cost-of-living crisis actually being extended into the so-called ‘cost-of-doing-business crisis’, which could start to affect creditworthiness of businesses and corporations, especially in Europe,” he says. “We’re not seeing those kinds of stresses appear in corporate bond markets yet – but I emphasise the word ‘yet’ because that would be a risk, if the challenging economic environment that we’re presently in extends over multiple quarters into next year.”

“To take it right back to the cost-of-living crisis, that ultimately has to play through to the economy, and to the investment market,” says Mackenzie. “And to take it to its extreme, if a pension fund owns a property which is let out to a coffee shop, and people start feeling they can’t afford coffee anymore, and the tenant of that coffee shop starts to struggle, you could lose your tenant and lose your rental income.”

Indeed, Sankey says: “I think default rates [*in high yield*] clearly accelerate from here.” But, crucially, he argues, recession and resultant default risks have been priced in for investment grade credit. “Credit spreads offer compensation for a cumulative default rate in investment grade (IG) credit, the top end of the credit market, of about 8.7 per cent cumulatively over the next five years,” he says. “If I look at any five year period from 1970 to the current day, the average five year cumulative default rate is about 0.8 per cent. The worst was 2.3 – 2.4 per cent. So you’re being compensated for a default rate over 10 times the average and over three times the worst that we’ve seen for any five year period of the past 50 years. So they’re pricing in a huge amount of recession risk right now.”

### Sticking with bonds

For Boswell, bonds remain of important to pensions but, he says: “It’s about being very wary about that range of possible outcomes. It is still very much about credit selection and being very careful in terms of what you do buy, because we could see credit spreads widen from those average levels to something more like recessionary levels.” In spite of what feels like uncharacteristic volatility in the bond market, pension funds won’t be turning their backs on this mainstay asset any time soon, Sankey says: “Bonds will remain key investment vehicles for pension funds.”

 **Written by Sandra Haurant, a freelance journalist**



# Sharing ideas

► ***Pensions Age* asks if there is enough collaboration between pension schemes, and between providers, within the industry, and what more could be done to encourage a more collective approach to working?**

The short answer is ‘yes and no’.

In our experience, DC pension scheme managers, trustees and members have a clear interest in what others are doing. We’ve found they are keen and willing to share learnings and we see some great ideas percolating across the sector.

There are regular forums and networks where ideas are shared. While typically under Chatham House Rule, as people move around the industry, those ideas and experiences travel with them.

And of course, bodies such as the PLSA and others exist partly to ensure that research and innovation can also be shared. Do providers collaborate? Ultimately, not enough.

This makes sense as they are, in the main, commercial organisations answering to shareholders or members. There is also an argument that healthy competition drives innovation, so by enforcing collaboration, there is the risk of stifling the flow of future developments.

But one challenge we’ve seen levelled at our industry is that we are in a bubble, too inward-looking. So whilst some sharing does happen, could we all – schemes, providers and advisers – learn from and embrace good ideas from other industries? After all, no one has all the answers, but there needs to be a level of shared responsibility to deliver on pensions promises.

► **Redington defined contribution consulting team senior vice president, Paul Enderby**

There is a huge amount of cross-industry collaboration that already exists within the UK pension space between members, asset owners, consultants, managers and data providers. For example, AXA IM has partnered with other investors to proactively work with innovative data provider Iceberg Data Lab, to progress biodiversity measurements and reporting frameworks forward for the benefit of the entire sector. We believe that going further to catalyse this kind of collective action will help accelerate industry progress in developing leading edge data, screening and metrics for biodiversity to provide impactful outcomes for the future of our people and planet.

While collaborative engagement is well-developed in the equity space, we believe there is a lack of consistency in approach and depth of understanding about engagement in fixed income markets and a cross-industry working group could be of enormous benefit to generate better outcomes for the pensions industry.

► **AXA IM senior equity investment specialist, Sian Long**



Collaboration and collective action is at the very heart of group investor litigation, an oft overlooked aspect of fiduciary duty, which we have seen proliferate in the past few years.

Pension funds and other institutional investors, not just in the UK but around the world, can come together to take legal action in cases of corporate and adviser malpractice and mis-selling, to seek financial recovery and improve investments in the long term.

Critics would say that these processes are just run for the benefit of the legal community and there is no collaboration. However, our experience is that responsible pension fund investors do absolutely want to collaborate and recognise that this collective power puts them back in the driving seat.

► **Institutional Protection CEO, Caroline Goodman**

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# Pensions history

## Complexity has consequences...Who knew?

In September 2005, a significant change took place. An employer leaving a final salary group scheme would now have to meet its share of any scheme deficit on a full buyout basis rather than the MFR basis prescribed in earlier legislation. Although the same obligation on wind up had been included in the Pensions Act 2004, employers who had no intention of winding up their schemes might have regarded the point as academic. They couldn't afford to take that approach when they discovered that group reorganisations and corporate transactions were fast becoming a legal

and practical nightmare as a result of the 2005 changes. The cost of safely navigating the legal hurdles so that the debt could be apportioned or, still worse, falling foul of legal technicalities, was huge. Amendments to regulations have tried to remedy some of the difficulties but calls for further reform continue. This is widely (and rightly) considered to be one of the most complex areas of pensions law.

Earlier in 2005, the ACA had carried out its annual *Trends Survey*. Three hundred firms, with over 2.8 million members and scheme assets exceeding

£131 billion, responded. Eighty-two per cent said that the Pensions Act 2004 would increase costs, and 62 per cent that it would reduce occupational provision. And that was before they realised the import of what would happen in September!

The full text of the survey can be found in the ACA collections at [www.pensionsarchive.org.uk/our-collections](http://www.pensionsarchive.org.uk/our-collections)

**The Pensions Archive Trust director, Jane Marshall**

### Wordsearch

R	M	Z	G	A	R	T	D	T	L	Q	J	S
U	E	I	P	N	A	P	H	I	S	I	F	N
R	S	L	T	O	I	R	S	H	C	T	I	O
A	I	S	A	L	Z	E	N	Z	M	N	Z	I
B	N	D	R	T	S	V	B	E	F	E	Q	T
C	G	R	S	O	I	I	N	L	R	S	P	C
M	L	A	O	W	R	O	U	S	L	K	Y	E
I	E	O	H	S	P	E	N	Y	T	E	S	L
T	C	B	I	A	N	B	Z	S	J	O	W	F
R	O	H	U	T	C	O	A	T	H	N	O	E
Y	D	S	I	S	M	N	R	E	E	I	K	R
O	E	A	G	M	P	D	D	S	L	N	P	Y
E	L	D	U	Y	O	S	A	S	R	G	R	S

### Fun and games

- BONDS
- DASHBOARDS
- INFLUENTIAL
- MENOPAUSE
- NET ZERO
- NHS
- REFLECTIONS
- RELATIONSHIPS
- SINGLE CODE
- WELLBEING

I know that face...



Answer at bottom of page

**PENSION MATTERS by FRAN**

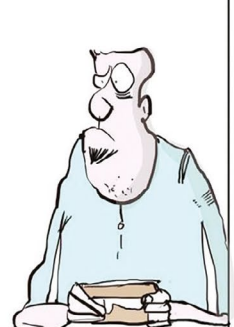
Have you read the latest research on managing climate change...



It turns out that 'greening' your pension is 57 TIMES more effective than giving up meat or getting an electric car...



How does your soya vegan burger with shredded reconstituted lettuce burger taste NOW?



I know that face... Answer: Jerry Gandhi, director at 20-20 Trustees and C A P Services



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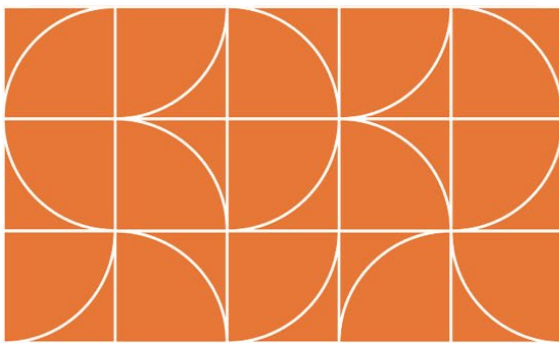
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Now in its 21<sup>st</sup> edition, our survey provides a source of information for employers and employees benchmarking salaries and benefits in the UK's pensions industry, trends and opinions across remuneration, most valued benefits and employment factors, reasons for moving employers and views on the pensions industry's current key challenges.

Your contribution is invaluable. All respondents receive a copy of the survey published early 2023 and entry into a prize draw. Access the survey via [www.sammonspensions.co.uk](http://www.sammonspensions.co.uk) Contact us for more information or to discuss previous years' findings.

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